HC 451

SOUTHERN
ECONOMIST

June 1, 1981

S

CONTENTS

EDITORIALS 1
Fiscal Policy Conundrums; Tonse Ananth Pai; Another Feat in Space

CURRENT TOPICS 3
Confrontation on Baby Food Code; Where Have All the Wheat Mountains Gone?; Economic Diplomacy in West Asia; Record Trade Gap in 1980-81

Yeshwantrao Chavan's "Home-Coming" 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
OPEC's Role in Reducing Trade Gap of Oil Importing LDCs
By M. C. Kodli
Need to Step up Industrial Production
By Veerendra Agarwala
India's External Debt Management: Some Imponderables
By Mrs. Kiran Barman
Impact of Urbanisation on India's Economic Development
By Mrs. Shantha N. Nair
Coffee Marketing in India: A Critical Analysis
By P. G. Chengappa and M. Muralidharan

BALANCE SHEET 20 to 27
Canara Bank

COMPANY NOTES 28
HINDALCO; Baroda Rayon; CIISG; Somany Pilkington's

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Fiscal Policy Conundrums

ON several occasions in the recent past, the Finance Minister, Mr. R. Venkataraman, has tried to instill optimism among the general public over the near-term outlook for the economy. If this has failed to carry conviction, it is largely because the new direction which he has sought to give to the fiscal policy, in his budgets of 1980-81 and 1981-82, has not led to any marked improvement either on the price front or on the production front. The supply side economics—the RV version—has not just clicked. This may be explained by his desire to make omelette without breaking eggs. In the United States, it is working, in a fashion, because the attack there is two-pronged. Side by side with tax reliefs and exemptions given to business, the Reagan Administration effected a massive cut in the size of budget. In India, the supply side economics is confined only to the supply side. Mr. Venkataraman's budgets have not done much by way of reducing the expenditure of the Government. This explains why inflation has not been brought under control.

This is not to decry the tax cuts he has made in his budgets — particularly the second one. In a modest way, this has helped the industrial revival in the private sector but a spurt in production has not been possible because of (a) the cost-push inflation which has eaten into the profits; (b) the persisting infrastructure deficiencies; (c) the inadequate linkages between the public and the private sectors; (d) the poor performance of the public sector and (e) the elusive industrial peace.

It is time Mr. Venkataraman shed the illusion that he is the sole custodian of the economy. As the Finance Minister, he can only influence the level of economic activity by the use of the fiscal instruments and the monetary policy. Even here, he has to reckon with two limitations, namely the large-scale tax evasion and the prevalence of the parallel economy which always works at cross purposes with the fiscal and monetary policies. This is nowhere more evident than in the limited success of the special bearer bonds which were expected to mop up unaccounted money to the tune of Rs. 800 crores. Now, three months after the presentation of the budget, which had left a gap of over Rs. 1,500 crores, on the top of deficits of Rs. 1,900 crores in 1980-81 and Rs. 2,700 crores in 1979-80, Mr. Venkataraman is confronted with the problem of how to contain the deficit at the budgeted level. Even granting that tax accruals, in money terms, will exceed the budgeted amount and the supply-side economics does the trick, the deficit is likely to go up as a result of the failure of the bearer bonds scheme, the inability of the state governments to pull their share of the weight and the increase in the expenditure of the Government at the Centre, warranted by the payment of dearness allowance at periodical intervals. The Finance Minister is finding it difficult to live up to his promise that he will not allow the deficit to reach the scandalous level of the 1979-80 budget.

Having neglected the demand-management side, Mr. Venkataraman seems to have become o convert to the view that a little inflation, like a little pregnancy, is not a thing to be worried about. But no Finance Minister with any sense of responsibility will remain indifferent to a double digit inflation which may be running at a rate of 16 per cent, if not more. Having tried the soft options, with no apparent success, Mr. Venkataraman seems to be thinking of exercising some hard options. He disclosed last week that he will be introducing an anti-inflation "package" but that this "package" will be presented in instalments. If the attack is going to be purely on the supply side, it can be by way of importing the commodities in short supply — edible oils, sugar and, may be, wheat. If the Finance Minister has any intention of adopting this course, he should have second thoughts over it because the import of these commodities is unthinkable, at the present depleted level of the country's foreign exchange resources.

All that he can do, under the circumstances, is to introduce a few more measures to mop up, or partially immobilise, black money and to cajole and coax the salaried classes and the wage earners not to ask for wage increases which are not linked to productivity. Now that the Jha Commission (the Economic Administration Reforms Commission) is also working on the same problem, Mr. Venkataraman can secure some useful hints from this expert body on how he can go about the task. To be fair to the Finance Minister, it must be said that the economy has shown some signs of improvement since the middle of 1980. Power supply position is not as precarious as it was in the early part of 1980 and production has improved in certain vital sectors like coal. The country has had a bumper harvest and the industrial sector, which showed a negative growth rate in 1979-80, is expected to grow at a modest rate of 5 to 6 per cent in 1980-81. But, unfortunately, despite these improvements, the prices are rising at an unacceptably high rate. The problem is too big for the Finance Minister alone to tackle. It is time the Prime Minister initiated a wide-ranging dialogue cutting across party lines so that a national consensus is evolved in order to meet this grave threat to internal stability.

Tonse Ananth Pai

THE death of Mr. Tonse Ananth Pai, veteran banker and politician, on May 29, will be mourned by every one who knew him. He was 59. Mr. Pai was a nephew of the great educationist and Banker, the late Dr. T. M. A. Pai who founded the Manipal institutions. It was as Dr. T. M. A. Pai's under-study that Mr. Pai came to be associated with Syndicate Bank—then a private sector institution. Mr. T.A. Pai had a large hand in building the bank into an all-India institution. After heading the bank for a number of years, Mr. Pai moved on to the Food Corporation of India and later to the Life Insurance Corporation. As their Chairman, Mr. Pai introduced many innovations in these organisations.

Mr. Pai's political career was marked by several ups and downs. As a Minister in Mrs. Gandhi's cabinet—he held the portfolio of Railways and later, Industry— he made a mark. Dictated by political expediency, Mr. Pai like many senior Congressmen, went along with Mrs. Gandhi in the first year of the emergency. It was only after the emergence of Mr. Sanjay Gandhi on the political scene that Mr Pai's relationship with the Prime Minister got somewhat strained. The manner in which Mr. Pai stood by his officers when they were harrassed for not dancing to the tune of the high and mighty speaks volumes for Mr. Pai's great qualities of the head and the heart. In his desire to be in the mainstream, he sometimes committed tactical errors. One such error was to join the short-lived government of Mr. Charan Singh in 1979 as the Railway Minister. These short comings aside, Mr. Pai will be long remembered for his vision, dynamism and his total involvement in the nation's affairs.

Another Feat in Space

THE successful launching of SLV-3, with its 38-kg. payload, "Rohini", on May 31, constitutes another land-mark in India's progress in building rockets and space satellites. Third in the SLV series— the second one was suceessfully launched in July last year—the rocket launched on Sunday testifies to the mastery that our space scientists have achieved in rocketry and space science. Credit for this should go to the scientists and technicians who worked on the project at Vikram Sarabhai Space Centre at Trivandrum, ISRO at Bangalore and the launch site at Sriharikota. The launching of "Rohini" into orbit was the result of a high degree of coordination among all these three units. Containing, as it does, more sophisticated, indigenously manufactured instruments, the performance of "Rohini" will be watched with interest. The success of the SLV-3 project will also pave the way for bolder experiments involving the launching of heavier payloads. SLV-3's success has also demonstrated India's capacity to launch intermediate range ballistic missiles with warheads of any kind. It can also be said that the launching of SLV-3 has substantially reduced the technology gap, in this vital strategic area, between India and China.

SPECIAL SURVEY OF EXPORTS

The Next issue of *Southern Economist* (June 15, 1981) will contain, in addition to the regular features, a special survey of India's exports.

— PUBLISHER

Confrontration On Baby Food Code

THE international code to regulate the marketing of breast milk substitutes, which was approved by an overwhelming majority at the Geneva meeting of the World Health Organisation, constitutes a victory for the breast milk lobby. The code, being voluntary, does not amount to a ban on the use of infant foods. But a country which is under public pressure to stop the manufacture and sale of infant foods will now have the moral sanction of an international organisation to do so. By voting against the code, the United States has incurred the displeasure of the developing countries which were unanimous on the need to check the malpractices associated with the marketing of baby foods. The two other states which voted against the code were Bangladesh and Chad. They probably did so either under pressure from the infant food lobby or because they were not fully aware of the significance of the code. The nine who abstained must have chosen to remain non-committal in the face of the outcry from the manufacturers of infant foods at home.

All the same, WHO can take comfort from the fact that it has the backing of the majority — 93 members, to be precise — in its efforts to popularise breast feeding, particularly in the developing nations where millions of infants die every year due to infectious diseases, malnutrition and food-related ailments like diarrhoea. It is also established beyond doubt that mother's milk is more nutritious than infant foods. To be sure, the code endorsed by the WHO committee is not opposed to the manufacture and sale of infant foods as such; it only seeks to ban the advertising of these products and to restrict other unethical practices often resorted to with a view to boosting their sales. The WHO code thus stops short of meeting the demand of the fundamentalists who believe that children must be fed only on their mothers' milk till the time of weaning. Understandably, they pass the onus on the mother and point out that if a mother is incapable of feeding her child, she has no business to give birth to it. The deficiency, so the fundamentalist argument runs, can be made good, not by a partial or complete switch-over to infant foods but by improving the mother's lactating capacity. When one considers that the LDCs spend nearly one billion dollars on these products every year — mostly sold by the multinationals — the appeal of breast milk to the policy makers in these countries becomes almost irresistable.

But it would be factually incorrect to establish a causal connection between the infant mortality rate in LDCs (120 deaths per 1000 live births against 13 in developed nations), granting that the baby food manufacturers conform to internationally accepted standards, and the use of infant food. There is no reason why a child fed on artificial milk should develop intestinal ailments like diarrhoea. The fault lies, rather, with the manner in which the baby food is prepared for feeding — use of unclean feeding bottle, impure water and so on. This hurdle can be overcome by teaching the illiterate women in villages the proper method of feeding their babies.

Countries which have broken the monopoly of multinational infant food manufacturers will however do well to follow a middle path. While encouraging breast feeding, they could regulate the use of infant foods. In India's case, a product marketed under the brand name "Amul" (and manufactured in the cooperative sector) has actually stolen a march over the better-known brands produced by the multinationals. We cite the example of Amul not to draw an invidious distinction between the cooperative sector and the private sector but only to suggest that, where profiteering is not involved, it would be wise not to place a ban on the production of infant foods. So far as the ban prescribed under the WHO code is concerned, it may not affect the sale of the brands which have gained market acceptance.

The United States, which invited the frowns of the Third World by voting against the WHO code could as well have joined the chorus for breast milk, more so since the U. S. position does not seem to conflict with the general thrust of the code. To quote the U. S. spokesman :

> We recognize that one of the important aims of the code of conduct just adopted is to encourage breastfeeding. Further, we recognize the right of a government to ban or regulate the marketing of harmful products and substances. And we recognize in our laws the responsibility of manufacturers to adhere to honest and ethical standards in the marketing of their products. It is our conclusion, however, that the United States cannot support the code before us. In determining the position of the U.S. on this issue, we have had to balance what we see as the positive and negative factors involved.

The amateurish manner in which the infant food issue was handled at the WHO meeting by the representatives of the Reagan administration has invited harsh criticism from medical specialists and Third World experts within the country. This only shows that President Reagan and his inner circle of advisers are prone to take decisions which are not always calculated to improving America's credibility *vis a vis* the Third World.

Where Have All The Wheat Mountains Gone?

IT is a measure of the importance that the Government attaches to food buffer stocks that a slow down in wheat procurement in Punjab and Haryana necessitated the Prime Minister's visit to Chandigarh in the third week of May. From the procurement figures of the recent weeks, it would appear that Mrs. Gandhi's visit has had a catalytic affect. These improvements in government purchases may not add up to much, in any case, and the total procurement of wheat may fall short of the targeted figure of 9.5 million tonnes for the country by about 2 million tonnes, if not more. Before the Prime Minister's Chandigarh visit, Punjab had procured about 2.2 million tonnes against the target of 4.7 million tonnes; Haryana had procured less than a million tonnes against the target of 1.7 million tonnes set for the state; Uttar Pradesh, another wheat producing state, had purchased only half a million tonnes against its target of 2.5 million tonnes. Since wheat arrivals in the major *mandis* have peaked out, the Chief Ministers of the two states, namely, Punjab and Haryana, may not be able to fulfil their promise (to Mrs. Gandhi) of procuring 4 million tonnes and 1.25 million tonnes respectively.

The failure of the governments in the wheat surplus states to mop up sufficient quantities is intriguing for two reasons, namely, (a) the estimated record wheat harvest of 36 million tonnes in 1980-81 and (b) the higher procurement price of Rs. 117 per quintal. One view is that actual production in these two states may be less than the official estimates by a significant margin. There is also reason to think that the wheat grower has today greater holding power than in the past. Further, since the open market price for wheat in several consuming centres is nearly three times the procurement price, the farmer will have the temptation not only to avoid official channels but also the *mandis* since he can sell directly to the trader from some other state at a higher price. The opposition leaders have also averred that this kind of surreptitious sales in such huge quantities could not have been possible but for the collusion of political leadership in these states with the better off farmers.

Be that as it may, any tightening of the foodgrains policy in order to make the farmer sell more to the official agencies will now be as futile as bolting the stable door after the disappearance of the animal. By over-doing their errand, just to impress the Prime Minister, the Chief Ministers, Mr. Darbara Singh and Mr. Bhajan Lal, will be only adding to the prevailing panic. The Congress (I) governments should know that it is not politically prudent to adopt any drastic measure to bring out the excess stocks with the farmers.

The government in New Delhi has learnt from experience that it cannot take chances with food. But for the sizable buffer stocks it had built up over the years, it would have encountered a serious food crisis last year when drought conditions prevailed in large parts of the country. True, stocking nearly one sixth of the food harvest in FCI's godowns may not be the ideal way of managing the country's food economy—the wastage involved in this operation is colossal — but it is better than importing foodgrains and selling them at subsidised prices within the country. From some 20 million tonnes at which level buffer stocks were maintained for many years, they came down to 15 million tonnes, least year. They are now depleted to well below 10 million tonnes.

Therefore, the government's anxiety to replenish these stocks and bring them up to "safer" levels is not difficult to understand. Furthermore, the offtake by the public distribution system has been steadily going up. From about 10 million tonnes in 1978, it rose nearly 12 million tonnes in 1979 and to about 15 million tonnes in 1980. With the prevailing price-differential, the quantity sold through public channels may go up further. This make it all the more necessary to mop up larger quantities of wheat and other foodgrains from the market. But the behaviour of the *mandis* in Punjab and Haryana shows that it is not enough to rely on market arrivals alone. The Agriculture Ministry should think of a new stretegy (more of carrot and less of stick ?) for purchasing foodgrains for building buffer stocks.

Economic Diplomacy in West Asia

THE Prime Minister, Mrs. Indira Gandhi's tour of some of the oil-rich West Asian countries has been, on the whole, very fruitful. The tour can be assessed on two planes — political and economic. On the political plane, the countries which Mrs. Gandhi visited—notably, Kuwait and United Arab Emirates — could appreciate that India's stand on major issues like the Iran-Iraq war, big power rivalry in the Indian Ocean and non-aligment were not wholly different from theirs. Even on the question of U. S. S. R.'s presence in Afghanistan, Mrs. Gandhi succeeded in impressing on her hosts that India is as keen on the withdrawal of foreign troops from that country as any other nation. In both Kuwait and U. A. E., there was appreciation of India's consistent support to the Palestinian cause.

On the economic plane, Mrs. Gandhi's visit helped to focus on four advantages. Firstly, India, by virtue of its geographical location, offers vast scope for increasing the imports of the Gulf countries. She is in a better position to supply the consumer goods that these countries need in view of the freight advantage. Secondly, since India is deficit in oil to the extent of more than 50 per cent, she can look forward to assured supplies, may be, at a preferential price. Thirdly, the recycling of petrodollars has assumed special importance in view of India's growing balance of trade gap. India already has access to facilities like the Saudi Fund for Development, Kuwait Fund, Abu Dhabi Fund and so on. Mrs. Gandhi's visit has improved the prospects for securing more long-term loans from these sources. For instance, Kuwait has signed a Rs. 50 crore loan agreement for financing a thermal project in Uttar Pradesh. There are fair chances of India securing another loan for the Thal Vaishet project.

Fourthly, a sizable number of Indian nationals are working in these countries. If better conditions are created for their stay there, more Indians will be able to go to these countries for work, thereby enriching the quality of life in the host countries and also helping the home country by adding to its foreign exchange accumulations. India can expect a larger flow of remittances if the interest rates offered by the banks in this country are attractive and if the Indian government can provide suitable investment outlets for these funds. Another avenue of cooperation between India and the Gulf countries is the setting up of joint ventures. Mrs. Gandhi's visit to U. A. E. has opened up possibilities for involving the Emirates in the oil refinery which India is proposing to set up at Mangalore and for setting up a sponge iron plant in that country, probably by linking it up with our Kudremukh Project. Mrs. Gandhi's visit to these countries has dispelled the notion that the Arab nations which swear by Islam can do better business only with other Islamic nations. The fact that India has more Muslims (13 crores) than either Pakistan (7.5 crores) or Bangladesh (7.6 crores) is not lost on our Arab neighbours.

Record Trade Gap In 1980-81

THE trade deficit in the first 11 months of 1980-81 (April-February) has reached a record figure of Rs. 4,693 crores, surpassing even the Government's earlier gloomy estimate of 4,500 crores. It is now almost certain that the deficit for the whole year will exceed Rs. 5,000 crores. Originally, it was expected that exports in 1980-81 will reach Rs. 7,100 crores and imports will be of the order of Rs. 11,000 crores, leaving a trade gap of around Rs. 4,000 crores. All these projections seem to be wide of the mark now. It is almost certain that exports will not reach Rs. 7,100 crores, unless the export earnings in March reach Rs. 1,200 crores. Again, imports which stood at Rs. 10,608 crores during the first 11 months of the year, are unlikely to be contained within Rs. 11,000 crores or thereabout. Even in a bad year like 1979-80, when imports grew by 27 per cent and exports by 12 per cent, the trade gap was Rs. 2,236 crores. This year's anticipated trade defficit of over Rs. 5,000 crores must have given a rude shock to our policy makers.

Whether, in the face of these adverse trends, the Commerce Ministry will stick to its rosy projections for 1981-82 remains to be seen. To reach an export target of Rs. 8,400 crores envisaged by the Ministry, one has to assume a growth rate of 10 per cent in real terms, compared to the assumed growth rate of 9 per cent in view of the possibility of not reaching the 1980-81 target of 7,100 crores. This is not impossible of the achievement when one considers that the country had achieved export growth rates ranging from 20 to 30 per cent in the years, 1973-74 to 1976-77. This was, of course, partly explained by a world commodity boom but the incentives provided under the new export policy should at least help in pushing the export growth rate well above 10 per cent provided industrial production grows by around 8 per cent, if not more.

Actually, in the first half of the financial year, 1980-81, several export items have shown impressive rates of growth. Coffee exports, for instance, grew by 37 per cent and tobacco a still higher growth rate of nearly 70 per cent. The growth rate for cotton was 270 per cent while Chemical and Allied Products grew by 26 per cent. Even a 15 per cent export growth is possible in 1981-82 provided the items which showed negative growth rates can be made to show at least nominal increases over their 1980-81 performance.

The most worrisome aspect of the foreign trade picture is the rising trend in the oil prices. Oil imports alone, at around Rs. 5,000 crores, account for some 45 per cent of the total import bill and if in 1981, there are further increases in the prices of oil, the proportion may go well beyond 50 per cent. Similarly, if the import of other items like edible oil and fertilisers go up, then there will be hardly any scope for reducing the total import bill.

Yeshwantrao Chavan's "Home-Coming"

By **K. N. S.**

SINCE, in the Indian political lexicon, no stigma is attached to the word, opportunism, and in the absence of a more appropriate world to describe his latest action, I take the liberty of calling him an opportunist. One may hope that Mr. Yeshwantrao Chavan will not take it amiss. After all, he is in distinguished company. Mr. Chavan has always been on the winning side, except for a couple of years between 1977 and 1979. For a few months in the second half of 1979, Mr. Chavan was the Deputy Prime Minister in the caretaker Government of Chaudhury Charan Singh. And, when Mrs. Gandhi's Congress swept the polls and returned to power in January 1980, Mr. Chavan had to remain content with playing the role the leader of the opposition, in the Lok Sabha. Now that Mr. Chavan has announced his exit from Congress (U) as a prelude to his "home-coming", that is, to his joining Congress (I), one can well appreciate why he chose not to participate in the debate on the no-confidence motion moved by the opposition parties on the last day of the budget session. Surely, Mrs. Gandhi would not have liked it.

There was no immediate provocation for Mr. Chavan's desertion of the ship captained by Mr. Devaraj Urs. True, for some time now, the ship of Congress (U) was drifting without adequate ballast, particularly after Chandra Sekhar's Janata Party and Vajpayee's BJP made a good showing at their conferences. In fairness, he should have confided with at least two persons who matered, namely, Mr. Deveraj Urs and Mr. Jagjivan Ram. It would be interesting to speculate on why Mr. Chavan, after letting the kite fly for a couple of weeks, informed the press of his decision even before sending a formal letter of resignation to the party's President.

The cynical amongst us are prone to interpret it as a pre-emptive action meant to foreclose the options of his colleagues, Mr. Urs and Mr. Ram, who might have been thinking the same way. Mr. Urs could not have possibly jumped out of the drifting ship in an unseemly hurry. The captain is supposed to go down with the sinking ship. Probably, if an honourable offer was forthcoming from the other side, he would have gone through the preliminary rituals for a merger. Mrs. Gandhi, who was quick enough to notice the lack of unity among the triumvirate, chose the course of scuttling Congress (U) through engineered defections. Who knows, if Mrs. Gandhi had sent out proper feelers to Mr. Jagjivan Ram, his response would have been no different from that of Mr. Chavan. This interpretation may not square with facts but it does represent the view of the skeptical onlooker who thinks that every Indian politician is a potential defector.

Not many are impressed by Mr. Chavan's theorisation over the need for the unification of all Congressmen in order to impart stability to the country's political system. Who is to blame for the splintering of the Congress organisation? It was Mrs. Gandhi who forced a split in 1969 and it was again Mrs. Gandhi who, by encouraging authoritarian trends, caused another split after 1977. Even granting that the kind of unification suggested by Mr. Chavan will be to the good of the country, one has first to locate the real Congress before one can herd one's flock into it. Is Mr. Chavan hopeful of democratising Congress (I) which remains a one-leader party? What does he mean by "Congress culture"? Is it not a euphemism for unprincipled wheeling and dealing and for a sharing of the spoils of power?

It was in November 1962 that Mr. Chavan, then Chief Minister of Maharashtra, moved on to Delhi to take up the defence portfolio, at the behest of Nehru. During the "troubled decade" of the sixties, Mr. Chavan acquitted himself creditably both as Home Minister and later as Finance Minister in Mrs. Gandhi's Government. In all the three succession battles, he threw his undoubted weight on the side of Mrs. Gandhi although on the last occasion, he displeased Mrs. Gandhi by supporting Mr. Sanjeeva Reddi's candidature for the Union presidentship, at the famous Glass House session. In 1974, when Mrs. Gandhi was confronted with the adverse judgement of the Allahabad High Court, Mr. Chavan seconded the Congress Parliamentary party's resolution reiterating the party's faith in her. During the emergency, when he held the external affairs portfolio, Mr. Chavan once asserted that democracy was "more living and throbbing than ever". This remark drew cat calls and boos from a Chicago audience. In his own home-state, Mr. Chavan's defence of censorship during the emergency drew a forceful rebuttal from Durgabai Bhagawat — a noted Marathi writer. Though a confidant of Mrs. Gandhi — and a senior member of her cabinet — Mr. Chavan was not consulted before the Prime Minister declared the emergency, on June 25, 1975.

Viewed against this background, Mr. Chavan's "home-coming" will be tempered with bitter-sweet memories of the not-too-distant past. One may now ask: What reward can Mr. Chavan expect for this act of defection? One possibility is that he will be given the Number Two position in the cabinet, with the defence portfolio being tagged on to him. One cannot also rule out the chances of Mr. Chavan being put up as the party's nominee for the Union Presidentship, at a later date.

Glass House Gossip

I am surprised that Bangladesh, of all the countries, should whip up war hysteria over a tiny island in the Bay of Bengal. By all account, the Island — New Moore Island, as India calls it—has been formed by the silt carried by Ganga and Brahmaputra into the bay. It must have "surfaced", so to speak, in the recent decades. After an Indian survey team discovered the island, New Delhi has established its "presence" there although I have my own doubts if the place is fit for human habitation, as yet. On the face of it, Dacca's claim to the Island—they call it Talpatty — hardly looks tenable. A map published by *The Hindu* (May 24, 1981) shows the island, which may not be more than 5 to 8 sq. km. in area, to the west of the India-Bangladesh border alignment. (Incidentally, this reminds me of the dispute raised by Sri Lanka over the tiny island, Katchathivu, adjacent to the Tamil Nadu coast).

Besides, the concept of the "exclusive economic zone" further strengthens India's position. Bangladesh's claim looks frivolous for another reason: it was India which, by winning the 1971 war with Pakistan, helped to "liberate" East Pakistan, thus bringing into being Bangladesh. The war involved enormous sacrifice for India, in terms of real resources and man power. As a result of the revolt of the people in what was then East Pakistan, and Pakistan's repression, India had to cope with a refugee influx of unprecedented magnitude. Were it not for human considerations, India would have drawn a *cordon sanitaire* along its entire border and let the East Pakistanis stew in their own juice.

The ruling clique in Dacca seems to have drawn its inspiration from its Islamabad counterpart in raising the Talpatty bogey. The people in these two countries are disenchanted with their rulers. One Zia is haunted by shadow of Bhutto; another Zia is scared stiff over the prospect of a Bangabandhu backlash. In Pakistan, the Bhutto ladies—Nusrat and Benazir — are spearheading the revolt; in Bangladesh, Sheikh Hasina Wazed — the sole survivor of Mujib family —has declared a war on the politicians who plotted against the Bangabandhu and assassinated him and his family. What the people of Pakistan and Bangladesh are going to do to their autocratic leaders is purely their business. India has made it clear that it is not concerned with the internal affairs of these neighbouring countries. But if the rulers of these countries continue to snipe at India as a diversionary tactic, then India will have every justification to put an end to this sniping.

□ □ □

I have always thought that the western man is incapable of mastering the technique of indefinite fasting. The technique was perfected by Mahatma Gandhi who used it to good purpose during the freedom struggle. In those days, even the British rulers, who were not easily carried away by the suffering of a fasting person, used to betray nervousness whenever the Mahatma went on his "self-purificatory" fasts.

The death of three Irish nationalists resulting from prolonged hunger strike in Maze prison in Belfast in quick succession made me change my views on the technique of fasting being an Indian monopoly. In any event, the Irish people have shattered India's record in this matter. The only Indian who achieved his objective—pardon my punning here — by undertaking a fast unto death was Potti Sriramulu. His death, in the early fifties, hastened the creation of Andhra Pradesh. Lesser mortals who undertake phoney fasts—they are a dime a dozen—are known to prolong the agony by stealthily taking food. Nowdays, nobody takes a fasting Indian seriously.

Be that as it may, the first Irish nationalist to die was Bobby Sands who had been elected to the British Parliament—unique in the annals of British parliamentary elections. Mr. Sands died on the 66th day of his fast. The next to die was Francis Hughes. The third to die was Raymon McCreesh. By the time these lines are seen in print, probably another IRA terrorist, Patrick O'hara, will have died of self-inflicted hunger, in the Maza prison. The approach of these IRA prisoners is subtle, even by British standards. They are not asking for the merger of Ulster (a British province on the northern tip of the island) with Ireland, although the struggle has been going on for generations. They had only demanded equal status with political prisoners. The British Prime Minister, Mrs. Thatcher is stubbornly resisting this demand on the plea that it would amount to a recognition of terrorism.

The deaths of the three hunger strikers, who had been jailed for serious offences like murder, should cause a change of heart even in the Iron Lady. The Irish are catholics whereas the dominant population in Ulster are protestants who have opted to stay with Britain, which is predominantly protestant. But the fact remains that Britain has not quite succeeded in putting an end to terrorism in Ulster and to afford a modicum of security to the Protestant population there. If White Hall is keen on avoiding further bloodshed and on stopping more self-inflicted deaths by starvation, it should evolve an arrangement whereby Dublin will have a voice in the running of Ulster — an arrangement which should also provide cast-iron safeguards to the protestant majority in the northern province.

□ □ □

Everybody does it but the person caught in the act has to pay for other people's sins. This is the moral that one has to draw from Mrs. Renuka Rajendran's exit from the Gundu Rao cabinet. Mrs. Rajendran held the portfolios of small industry and sericulture. Her husband, Mr. K. Rajendran, is Joint Director in the State Information Department. The couple are Harijans. Mrs. Rajendran was alleged to have taken a bribe of Rs. 25,000 from a youth promising him to secure a job as police sub inspector, using her influence as an MLA. That was many years ago. The youth who did not secure the job asked the money back. He was paid by means of cheques some of which bounced. The Rajendran couple thus face criminal charges which, if proved, may lead to their imprisonment for a couple of years.

India being India, the vice (of taking bribe) is practiced by most MLAs, M Ps and ministers. What is surprising, in the case of Mrs. Rajendran, however, is not her indiscretion in taking bribe but her failure — assuming that the guilt is established—to fix up the young man in the position he was seeking. What Mrs. Rajendran probably forgot was that in our system, a bribe, to be meaningful, is shared by many, right from the *chaprasi* to the minister. If the link is broken, the whole scheme collapses. May be, Mrs. Rajendran forgot to observe the unwritten rules. May be, the young lady had incurred the displeasure of some one higher up, in *Vidhana Soudha*.

One story going the rounds is that Mr. Gundu Rao may have ticked off the wrong file, without reading the contents, during his "file clearance week." Since, in any case, the Rajendran couple are charge-sheeted, there is very little that a Chief Minister can do to save a trusted colleage from being hauled up in a court of law. Mr. Gundu Rao has reason to feel uneasy over the new development because a few other colleagues of his are also under a cloud. The opposition leaders have also levelled a charge of embezzlement of the funds of a cooperative society in Coorg against the Chief Minister himself. The charge pertains to his fledgeling days and appears to be time-barred, besides being based on flimsy evidence.

But in this murky atmosphere in which the general tendency is to believe the improbable, Mr. Gundu Rao will have to work hard to convince New Delhi that he has a firm grip over the situation. Cynics are already wondering if the Renuka case marks the beginning of the end of the Gundu Rao regime.

□ □ □

AT one time, the vice chancellorship of a University used to be a much sought-after job. Today, it is a crown of thorns. Thanks to the general fall in values, interference by politicians and caste equations, the post has become the grave yard of reputations. These are the days when one can purchase a degree or a doctorate for a price. Professorships are offered, so to speak, to the highest bidder. College campuses wear the look of battlefields. Vice chancellors and principals live in the constant dread of being *gheraoed* or, worse still, shot at or beaten up by student rowdies who are, in turn, backed by teachers' cliques.

In such a situation, I would not have advised any friend or well-wisher to take up the vice chancellorship of a university but Dr. D. M. Nanjundappa who has just been appointed the Vice Chancellor of the Dharwad-based Karnataka University, is unlikely to be deterred by such a nightmarish vision of the campuses. He brings to the university a breath of fresh air and, given sufficient time to settle down, he may even succeed in taking it out of the rut into which it has fallen. As one who is sufficiently "exposed" to the real world of economic administration—he was the Economic Adviser to the Government of Karnataka — Dr. Nanjundappa brings with him a good deal of administrative experience.

This should stand him in good stead in his efforts to set the University on a new course. As a planner, Dr. Nanjundappa hastened the planning process in Karnataka by formulating the state's Fifth and Sixth Plans. In his own gentle way, he lobbied for many a worthwhile project in Karnataka, in New Delhi. It is a measure of Dr. Nunjundappa's abiding interest in *Southern Economist* that he always found time to do an article whenever I approached him for one. Susheela, who was Dr. Nanjundappa's student for a couple of years, joins me in sending our hearty congratulations.

— Plebeian

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

OPEC's Role in Reducing Trade Gap of Oil Importing LDCs

By **M. C. Kodli** *

The eight to ten-fold increase in oil prices since 1973 has caused severe balance of payments distortions in most countries. To some extent, the problem has been tackled by the re-cycling of petrodollars both through larger imports by OPEC countries and through a larger outflow of investible funds. In this article, the author analyses this problem and suggests that OPEC should adopt more purposeful measures in order to help the developing countries.

THE OPEC's decision to increase the price of crude oil from January 1, 1981 again has come as yet another blow to the already battered economies of developing countries. Most OPEC countries are also developing countries but they are now in a special category because of their oil resources. The developing countries in Asia, Africa and in Latin America are importers of oil. The oil price hike puts a severe strain on the balance of payments of these countries. Unless these countries are able to participate more effectively in the world trade they will find it very difficult to meet their oil import bill. The current account deficit of the oil importing developing countries is estimated to be about 68 billion dollars. According to IMF projections, the deficits of these countries may reach 80 billion dollars in 1981.

The developing countries, which are more than 120 in number, cover two-thirds of the world population. These countries are now engaged in the modernization of their economies. The process of industrialisation and modernization of these economies require a more rapid growth of energy consumption than the increase in total output. Due to economic development, there is also a shift from non-commercial energy to commercial energy in these countries. Naturally, therefore, the consumption of oil in these countries is increasing. The oil price hike since 1973 has affected these countries very badly. The oil import bill of these countries has been increasing by leaps and bounds.

The current account deficit of these countries is expected to go up with every increase in the price of oil by OPEC countries. The developing oil importing countries are mostly exporters of primary goods. They import capital goods also along with oil. The prices of these capital goods are also increasing because of the increase in the price of oil. Therefore, the oil importing developing countries have to pay more not only for oil but also for capital goods imports. The extent to which a country is affected by the oil price hike depends upon the domestic oil resources and the amount of oil it imports. Only five countries, namely, Brazil, South Korea, India, Turkey and Taiwan account for 50 per cent of the third world oil imports. Some countries like Columbia, Bolivia, Peru and Mexico have not been affected much because they have become almost self sufficient in oil. Mexico is emerging as an oil exporter and it has chosen to remain outside OPEC. But it can get all the advantages of being an oil exporting country without being a member of OPEC.

TABLE 1

WORLD ECONOMIC STRUCTURE 1975

	Population (millions)	Per capita GNP (dollars)	Per capita Energy Consumption. (kg)	Population as % of world population
Poorest 48 countries	1088.2	160.6	65	27.5
Other LDC's	1417.3	679.9	894	35.8
OPEC countries	292.2	2103.6	1415	7.4
Developed countries	1159.9	3206.9	4028	29.3

Source ; Singer H. W. and Ansari J. A. Rich and Poor countries, George Allen and Unwin London 1978 p. 16.

TABLE 2

COST OF OIL IMPORTS OF THE OIL IMPORTING LDCs

	1973	1974	1978	1979	1980
1) Oil import bill (bullion dollars)	8	24	26	35	51
2) Oil imports as percentage of					
i) Total imports of goods	12	22	16	16	20
ii) Total Export of goods	13	27	19	20	25
iii) G. N. P.	1.5	4	3	3.75	5

---

* Dr. M. C. Kodli teaches in the Department of Economics, Karnataka University, DHARWAD.

Similarly countries like South Korea, Hong Kong, Taiwan and Singapore are not affected much by the oil price hike because of a different reason. These countries are closely integrated into the world economy. These countries have become the exporters of manufactured goods. The cost of increased oil is passed on in the form of higher prices for exports. It is the group of least developed countries within the broader group of developing countries which has been affected very badly by the oil price hike. We can include within this group of countries like Afghanistan, Bangladesh, India, Pakistan, Kenya, Bhutan, Nepal etc. India's oil import bill has increased from Rs. 200 crores in 1972 to nearly Rs. 5,500 crores in 1980-81. Nearly, three fourth of the total foreign exchange earnings is spent on imports of oil and oil products alone.

These countries have to increase their exports. But it is here that they face problems. The bulk of the world trade is taking place within the developed countries themselves. The developing countries' participation in the world trade is marginal. The developed countries have erected high tariff walls for the exports of commodities from the developing group. Unless the rich countries reduce the tariff barriers to the exports from developing countries, it is not possible for these countries to earn foreign exchange with which they can import oil.

The oil exporting countries, on their part, can do much to help the oil importing developing countries. The possibility of charging a lower price for the oil imported by the developing countries needs to be considered seriously now. The oil exporting countries have turned down the plea of oil importing developing countries for a lower price on the ground that the oil may be resold by the importing countries. This possibility can be avoided by fixing a certain fixed quantity of oil at a lower price to these countries. Every oil exporting country knows how much oil an oil importing country purchases from it. On the basis of the past five year's average imports, an oil exporting country can fix a quota which it can supply at a lower price to each oil importing country.

What should be the extent of price concessions to such oil can be determined by the oil exporting countries, taking into account the financial implications. Each oil exporting country will be selling oil to different countries. To avoid unequal sharing of the burden of oil subsidy by the OPEC countries, they can work out a plan to share this burden among themselves in proportion to the total oil exports of each country. The amount of subsidy given by way of lower prices to developing countries cannot be a great burden on OPEC countries because the developing oil importing countries account for only 20 per cent of the oil exports from OPEC. The remaining 80 per cent of the oil from OPEC goes to the developed countries, the 24 member countries of OECD.

The oil exporting countries can also think of the possiblity ofgetting their imports from developing countries. Many consumer goods and some capital goods can be imported from developing countries. Increasing trade between oil exporting and oil importing developing countries will be mutually advantageous to these countries. Therefore, there is need for increasing the economic co-operation between oil exporting and oil importing developing countries.

With the continuous increase in the price of crude oil since 1973, the problem of recycling of oil-surpluses has also arisen. Bulk of the oil surpluses of OPEC is invested in the advanced countries. Here again, the oil-importing developing countries are at a disadvantage. Even the 'oil-facility' created by IMF to meet the current account deficits arising out of oil imports has failed to come to the rescue of oil importing developing countries. This fund has to cater to all the oil importing countries— developed and developing. The lion's share of this fund has naturally gone to the developed countries. Therefore, the OPEC countries can now invest their oil surpluses in the developing countries. There is an enormous scope for investment of these funds in developing countries in oil refineries and petro-chemicals. When OPEC's surplus funds are diverted at least partly from developed to the developing countries, the latter's current account deficits will be reduced. Therefore, greater economic co-operation among the developing countries including oil exporting developing countries, is in the long-run interest of all the nations.

NEPAL'S HYDEL PROJECT GETS ADB ASSISTANCE

Over 7,000 households and 1,200 commercial, agro-industrial and agricultural consumers will be the beneficiaries of a Mini-Hydropower Project in Nepal which is being supported by a $8.3 million concessional loan from the Asian Development Bank and a UNDP-financed technical assistance grant. The loan is from the Asian Development Fund. It has a repayment period of 40 years, including a 10 year grace period, and carries a service charge of one per cent per annum. The Project is designed to increase commercial energy resources needed for electrification of the eight hill areas of Nepal, a country where traditional fuels like firewood,animal dung and agricultural wastes supply a very large percentage of total energy consumption.

Under this Project, a number of the relatively backward hill areas, which do not at present have access to the national electricity grid, will be provided with decentralized mini-hydropower systems. This will reduce consumption of kerosene and also help reduce fuelwood demand and prevent exploitation of forest resources and soil erosion, which have become serious in the hill areas. The main components of the project include: (i) construction of eight mini-hydropower plants in hill districts ranging in installed capacity from 200 kW to 1,000 kW. Of these, one mini-hydropower plant is a multipurpose scheme for power generation and for irrigation; (ii) establishment of a central maintenance workshop; and (iii) training of plant operators and linemen. The provision of comprehensive facilities to consumers (including service connections and housewiring) which will enable poorer sections of the community to have ready access to the benefits of electrification is a special feature of the Project.

Need to Step up Industrial Production

By **Veerendra Agarwala** *

Although industrial production has shown a revival since the second half of 1980, capacity-utilisation remains poor and the Government's efforts to remove the infrastructure bottlenecks have not met with success to the desired extent. In this article, Mr. Veerendra Agarwala well known economist commentators takes a close look at the problems facing the country and suggest measures to overcome these problems.

THE poor performance on the industrial front is very disquieting. The sluggish performance of industry has not only contributed to the continuation of conditions of scarcity but has created a further drain on the already precarious foreign exchange reserves, which had to be replenished only recently with a huge loan from the International Monetary Fund. The Finance Minister has referred to the larger number of approvals of licenses and letters of intent this year. No doubt licences and letters of intent represent potential capacity and none can dispute its due importance. But what is their use, if the units actually set up do not yield the production they are capable of yielding? The truth is that in many industries the existing capacity is very much under-utilised. In a capital-hungry country, this under-utilisation of capacity created with investment derived by tightening the belt of the poorer sections has to be viewed with the utmost concern.

The Finance Minister has conceded that the GNP during the current year would not go up by more then 4 per cent though, at the time of presentation of the budget, he had estimated an increase of 5 per cent. It is obvious that the anticipated decline is largely due to short-fall in industrial production As against the anticipated growth rate of 6 to 8 per cent, the latest assessment shows that the industrial production would hardly go up by 4 per cent. The reason for the lower growth is that the rate of investment has not picked up to the expected levels. Besides, the industrial relations problem has resulted in serious loss of production. It is interesting to note that the level of savings reached in India is comparable to that of economically developed nations. But the growth rate of our economy is not comensurate with the existing rate of savings. High savings with low economic growth is a phenomenon contradicting the conclusions and projections of development economists and planners. A 20 per cent inflation injected into our economy has caused maldistribution of income. This among other things, explains the recession in the industrial sector. Since the growth of the consumer goods sector and the capital good sector are interdependent, production in the latter also has fallen under the grip of recession which is clearly indicated by the stagnation in the output of steel, cement, non-ferrous metals, machine tools etc.

Under-utilisation of plants involving the huge capital investment, generates cost-push which further fuels the inflationary process. Due to greater under-utilised capacity in the capital goods sector, the prices of investment goods have been rising at a faster rate than those of other commodities. This has not only discourged investment in the needful directions, but has also raised overall capital-income ratio in the economy. Actually, the average capital output ratio has increased from 2.7 in 1951-52 to 3.44 in 1976-77 while the incremental capital-output ratio has risen during the same period from about 2 to 4.5. This means that if for generating an income of one rupee, the required investment in 1951-52 was Rs. 2 now it has become Rs. 4.5. When savings are largely absorbed by constructions, inventories, currencies and high prices of investment goods, a rise in the capital-output ratio is inevitable and so is the low rate of economic growth. One of the most important ways to reduce the capital-output ratio and to accelerate economic growth is to improve the quality of skills of human beings.

It is equally true that the industry's capability to utilise funds efficiently has been impaired recently partly due to factors which are beyond its control. Profitability of new investment has substantially declined, among others, due to sizable increase in project costs as a sequal to domestic and world inflation. With a rising trend in interest rate the cost of working capital, the requirement for which has grown on account of persistant inflation, has also increased. If the interest rates are further raised, it would place such heavy burdens that a substantial percentage of industrial units are sure to go sick. Reduction of interest rates and rationalisation of tax policy are vital to enable self-generation of resources. It is essential that monetary and fiscal policies are consider together to ensure that one does not cancel the other and make it difficult to achieve the growth rate.

The inference that industrial production for the year as a whole will grow at 4 per cent even though it actually fell in the first half of the year may be justified only if there is evidence to show that the unfavourable conditions operating during the first half of the year will not be operating during the second half, almost one third of which is already over. Power, coal and transportation bottlenecks have been the crucial factors responsible for the failure of industrial production during the first half of the year. All the evidence points to the continued presence of these bottlenecks even now. Coal production has not shown any significant increase. Inefficient working of the Railways continues to hamper movement not merely of coal but also of other essential raw-materials.

---

* Former member of Parliament

The power stations, faced with shortages of coal and other difficulties, continue to operate at low levels of capacity-utilisation. West Bengal is estimated to be losing industrial production of Rs. 1,000 crores per annum because of the scarcity of power. In October 1980, Bihar has reported a power deficit of 45.1 per cent. The DVC deficit amounts to 30.5 per cent. Power shortages of varying amounts are facing U.P; Maharashtra, Madhya Pradesh, Jammu & Kashmir, Haryana, Gujarat, Karnataka, West Bengal, Punjab and Assam. Only the southern states appear to be in surplus situation. The eastern region had a shortfall of 22.3 per cent, the northern region one of 13.5 per cent and the western region of 11.8 per cent last month.

The immediate objective should be to achieve better capacity-utilisation. The causes for the poor performance are inadequate maintenance, scarcity of coal, lack of spare parts and labour indiscipline which are so well known that the authorities are expected to deal with them rather effectively. What the country needs is a continuous and substantial improvement in power generation.

The other major constraint on industrial growth is the shortage of wagons. The wagon industry in the country has been suffering from idle capacity on account of insufficient orders for wagons. Yet, the Government which runs the railways as its monopoly, has done practically nothing to augment the supplies of wagons. When the shortage of wagons has been found to be a major bottleneck, year after year, the highest priority ought to have been given to augmenting their supplies. The Railways would need more than 2.7 lakh wagons. In such circumstances, it is difficult to see how industrial production for the year as a whole will rise by 4 per cent. If constraints to growth continue to remain so sharp as they are today it is unlikely that we can hope to achieve 4 per cent industrial growth rate in 1980–81.

It is the framework of Government policies pertaining to industry such as fragmentation of capacity into sub-optimal sized plants, unremunerative nature of investment in price control industries etc. are now recognised in official documents. It is laudable that fresh capacity being sanctioned allows for availing of the benefits of the economics of scale. Again the attitude towards expansion and diversification of the existing units is more realistic than in the past. Likewise, prices assured for basic items like cement and fertilizers allow for a reasonable return. These efforts will have to continue and there is scope for making the environment more conducive to industrial growth. All concerned should take cognisance of the change in economic environment which would pose many challenges *inter alia* because of the rising exposure to international trade both for import substitution and export-oriented industries. The focus should now shift to measures promoting industrial growth with accent on viability and efficiency. Industrial management needs to be so improved that it acquires the required capability to meet the new challenges while accelerating the pace of industrial growth at a faster pace.

Rapid industrialisation is the key to economic prosperity. Rural poverty is growing at a faster pace. The crucial question is: how to raise the income levels of a substantial percentage of rural population which still lives below the poverty line. Whatever the farmer produces on his fragmented holding is not enough for supporting his family. Increasing the support price can hardly be the solution. The rural economy will have to be diversified to augment the income of the small farmer. It is almost certain that even if parity price is gauranteed for farm output, the income level of an average farmer can never be raised unlese he is encouraged to develop agroindustries or some other mixed forming which could supplement his low income.

A substantial percentage of rural population will gradually be required to be shifted to such areas where new industrial centres could emerge. Pressure on land needs to be so reduced that an average person in rural India could raise his purchasing capacity for raising his living standards. On the other hand, the Government must embark a massive programme of rural works and also set up some district machinery for a wide network of rural industries which could help providing productive employment to marginal farmers as well as to the landless labourers. A new atmosphere of indstrialisation at all levels is the need of the hour, if rural poverty is to be eradicated by the end of the Century.

FAO REPORT PREDICTS BETTER WHEAT CROP IN 1981

The world harvest of wheat and coarse grains in 1981 could range from 1,160 to 1,280 million metric tons, according to the Food Outlook report of the Food and Agriculture Organization of the United Nations (FAO). The report indicated improved prospects for 1981 wheat and coarse grain production, based on forecasts of larger plantings in both northern and southern hemispheres, and generally favourable weather so far in major growing areas, including the United States.

In the United States, the winter wheat area was about 11 per cent larger and it appeared likely that the new crop could beat the 1980 record crop. Should normal weather continue in the USSR, and assuming average yields, winter grain production there could amount to 70-75 million tons, an increase of about 10-15 million tons over the 1980 winter crop. Prospects for wheat crops in India and Bangladesh are favourable, and wheat production in Pakistan is forecast to exceed last year's record of 10.8 million tons. Drought has adversely affected grain crops in East Africa.

Winter grain prospects also continued to be satisfactory in most western European countries. The report reiterated that cereal carryover stocks from the previous season are expected to drop substantially because of lower production of wheat and coarse grains in 1980 and continued growth in consumption. Global carryover stocks were forecast to fall by the end of 1980-81 to 213 million tons, which is 38 million tons or 15 per cent below their opening levels.

India's External Debt Management: Some Imponderables

By **Mrs. Kiran Barman** *

Most countries which are set on the path of development face the problem of raising funds abroad. Unless the external debt is managed efficiently, a growing share of the country's exports will be eaten up by debt-serving. In this article the author discusses this "vicious circle" and points out how difficult it is for the planner to cope with exogenous factors like adverse terms of trade and conditions in the capital market abroad.

IN developing countries, one of the major tasks of Governments is to stimulate the growth of the economy consistent with stability. In most of them, as in India, "the road to economic development is paved with vicious circles."[1] There is a small capacity to save owing to a low level of real income. Low income is a reflection of low productivity which is usually due to relative lack of capital equipment and capacity to use it to the best advantage. The lack of capital has resulted largely from the small potentital for saving. This in turn is caused by a low level of investment. This justifies the assertion that capital is a serious bottleneck in the development of LDCs, especially in those countries which possess a meagre amount of it in relation to their population and natural resources.

To break this vicious circle and uplift a country towards self sustaining growth, a large amount of capital is necessary. A developing country attempting to mobilize the capital resources needed for faster economic development may try one of the two basic approaches or a combination of the two: it may opt to try to 'go it alone'—depending on its own efforts to generate the necessary resources, or it may decide to supplement whatever domestic savings can be mobilized by imported capital, that is, by borrowing abroad.

It is absolutely necessary for a developing country to rely, to a large extent, on foreign assistance in the initial stages of its economic development. Such aid becomes necessary, mainly to provide foreign exchange for purchasing capital equipment and industrial raw materials from outside and for supplementing the capital supply from domestic sources. India also found herself in need of substantive foreign assistance when she decided upon a policy of planned economic development.

When India gained independence, she had little external debt and large external reserves, mainly in the form of sterling securities. Nearly two decades later, on the eve of the Fourth Plan, these reserves had dropped to a level of Rs. 76 crores while external debt had climbed upto Rs. 5,927 crores. This transformation in India's international position—from being one of the important creditors of Great Britain to being the biggest debtor country in the developing world—was the result of deliberate policy. The rise in the foreign debt was not the result of either absent-mindedness or financial irresponsibility. It was a calculated by-product of the strategy for economic development conceived and implemented by Indian planners with the full knowledge and blessing of the Lok Sabha.[2] At the end of March 1979, our external debt had further increased to Rs. 9,373 crores and it was expected to increase to Rs. 9,978 crores at the end of March, 1980.

Briefly, the strategy was to raise the rate of investment in the economy as quickly as possible, supplementing national savings with external resources. A consistent feature of successive five year plans was the setting of investment targets above the level permitted by savings expected to materialise within the economy. Looked at from the view point of the balance of payments, the planners counted on imports which were much bigger than the projected level of exports. The planned resource gap between investment and savings (or that between imports and exports) was to be financed by drawing down the reserves, foreign borrowing and by external transfers in the form of grants. As the Second Plan put it, "It is the crossing of this threshould at a time when living standards and the saving potential are low that calls for a measure of external assistance to supplement domestic resources".[3]

In India, the need for borrowing is not likely to abate in the 1980s. On the contrary, given the needs of development, the necessity of servicing the outstanding foreign debt, and the requirements of meeting anticipated current account of Balance of Payment deficits — particularly serious in view of the sharp increase in energy prices and the slow down in the world economy — the need for external borrowing is likely to increase. If there is a further increase in such borrowing, there may arise difficult debt servicing situations. This enhances the need for appropriate debt management policies to avoid incipient difficulties.

Decisions regarding borrowing abroad have repercussion over a long period of time. The central purpose of external debt management is to determine how much foreign debt should be contracted over time and on what terms. There is no simple or magic formula for determining a figure for the 'optimal' indebtedness of a country, even though as in other fields of economics, elaborate mathematical approaches have been attempted. Besides, the concerned policy maker does not have the luxury of dealing in abstract terms based on models of how the economy supposedly functions. He has to balance the many competing needs and pressures of the economy, and external debt is only one part of a much broader macroeconomic picture.[4]

---

* Dr. Kiran Barman is Lecturer in Economics, Banaras Hindu University, Varnasi.

For external debt management, the government must take account of the long term consequences of its decisions, its policies will also be influenced by the repercussions of past decisions. The Government must begin with the level of already contracted and outstanding external debt, its maturity structure, and the stream of debt service payments to which the country is already committed.

Besides, the government has to take into account a number of other crucial factors. The most important are forecasts of the economic performance of the country, reflected not only by the anticipated growth in the gross national product (especially the growth in exports) but also by factors such as inflation, the country's ability to generate savings, and the level of reserves. These will help him to partially determine how much debt the country can afford. Another aspect of this problem is the cost of new debt, namely grant element, interest rates, maturity pattern (including grace period), mode of repayment and the nature of loans (whether tied or untied). Bearing in mind the cost, the government must decide what is the country's capacity to incur new debt or what is the sustainable rate of growth of new external borrowing over time for the country.

If a principal goal of external debt management is to keep the growth of debt within the country's capacity to service it, a second objective would be to avoid potential debt crises. If one occurs, the government should undertake timely rescheduling of the debt on appropriate terms.[5] Besides, the other important aspect of external debt management is to adopt a satisfactory system of monitoring, registering and approving of foreign debt. Indeed, without a satisfactory system, the other objectives of external debt management cannot be adequately met.

However, management of external debt is not an easy job. There are several factors over which the policy maker has control. For example, for most developing countries, as in India, the increase in exports is subject not only to the vagaries of climatic conditions (for agricultural products) but also to the changes in the level of economic activity in industrial countries (for mineral products) both of these factors are entirely beyond the control of the developing country. Similarly, the terms of borrowing are exogenous, they cannot, in general, be influenced by any particular country. On the contrary, it depends on international capital market which reflect overall supply and demand conditions.

REFERENCS

1. Higgins, B.: *Economic Development, Principles, Problems and Policies* (New York, 1959), p.24.

2. Please see, Gulhati, Ravi I.: 'India's External Debt; *India Quarterly*, Volume xxviii, No. I, Jan-March, 1972.

3. Government of India, Planning Commission, *Second Five Year Plan*, p.ii.

4. Nowzad, Bahram, 'Managing External Debt in Developing Countries', *Finance and Development*, September, 1980, Vol. 17, No. 3, pp. 24-27.

5. *Ibid*, p. 26.

Just Released

NEWLY REVISED AND
UPDATED REFERENCE BOOK

FINANCIAL CONTROL
IN A
WELFARE STATE
(Including Public Sector undertakings)

by B. B. Lal

This book is a case study of the formulae and procedures in operation for an efficient and economic management of the public funds.
It is both informative and instructive.

Pages 324 with seven charts
Library edition Rs. 50.00
Paperback Rs. 45.00

POST FREE SUPPLY

ORDER TODAY:
The Business Manager
Sales Emporium
PUBLICATIONS DIVISION

NEW DELHI-110001: (i) Patiala House (ii) Super Bazar, 2nd Floor, Connaught Circus. BOMBAY-400038: Commerce House, 2nd Floor, Currimbhoy Road, Ballard Pier; MADRAS-600002: 736, L. L. A. Auditorium Anna Salai (Mount Road); CALCUTTA-700069: 8 Esplanade East; PATNA-800004: Bihar State Co-operative Bank Building, Ashoka Raj Path; TRIVANDRUM-695001: Near Govt.t.Press, Press Road; LUCKNOW-226001: 10-B, Station Road, (Opposite Kohinoor Hotel)

davp 81/2

Impact of Urbanisation on India's Economic Development

By **Mrs. Shantha N. Nair** *

In most developing countries, the focus of attention remains the rural sector but the haphazard growth of cities has brought in its train several problems like deterioration in housing and public health facilities, not to speak of the growing crime rate. In this article, the author surveys the rapid growth of our cities without a commensurate increase in matching facilities. She also discusses problems of rural migration and the decay of smaller towns.

URBANISATION usually refers to an increase in the number of people living in urban areas mainly following some non-agricultural activity. The percentage of urban population to the total population of a country reveals the level of urban growth. Higher this percentage, greater is the level of urbanisation and *vice versa.* Similarly, the *per capita* income is a clear indicator of the level of economic development achieved by a nation. A country which is highly developed therefore enjoys a very high *per capita* income which means a very high standard of living for its people.

Economic development always leads to greater urbanisation in an economy. As the *per capita* income of a country increases as a result of developmental programmes, the standard of living of the people also rises simultaneously. A higher standard of living always leads to a greater demand for goods and services. The need for greater production results in mechanisation, division of labour, specialisation and large scale production. In short, economic development induces further urbanisation through industrial development. It can even be stated that the extent of industrilisation acts as a common indicator in understanding the level of economic development and urban growth achieved by the economy. In this way, urbanisation becomes a part and parcel of economic development.

This can be understood from the fact that in recent times, along with the development of our economy, there has also been an increase in the number of towns and cities. There is also an absolute increase in the number of people living in urban areas from 2.58 crores in 1901 to 10.90 crores in 1971 for the country as a whole. The table below reveals the progress in the number of towns from 1901 to 1971.

While the effect of economic development on urbanisation is always positive in the sense that it always results in greater urbanisation, the reverse is not always true in the case of India. The present article tries to analyse the positive and negative impact of urbanisation on the economic development of our country.

Urban growth of small and medium sized towns and cities always lead to expansion of existing facilities. This is reflected in the improvement in transport, communication, housing, education, employment facilities, trade and commerce, civic amenities etc. These improvements induces the 'pull factors' in attracting immigrants towards these regions. The population shows an upward trend. Correspondingly, the demand for goods and services increases. The need for a greater supply of commodities and services to meet the increasing demand encourages investment activity in ihe economy. The multiplier effect becomes significant. This results in more opportunities for greater investment and the pull factors become dominant and the region continues to attract more and more immigrants. In such a situation, urbanisation acts as a stimulant in furthering economic growth.

However, such a situation cannot continue for ever. After a particular stage, which one may call the optimum, the negative effect of urbanisation on economic development starts operating. The optimum level can be stated to be that level where the burden on civic finances as a result of a huge inflow of immigrants just equalises the beneficial results of urbanisation. The optimum, in a way, shows that the civic finances can do only that much and no more with regard to the provision of all the necessary amenities to the public upto the level of optimum. Though the burden on the civic financies for providing the basic amenities to the public increases undoubtedly due to immigration, the greater burden under such circumstances is confidently met by the administrative machinery because of higher level of industrialisation and greater taxable capacity of the people. At this stage, urbanisation does not con-

	1901	1911	1921	1931	1941	1951	1961	1971
No. of towns in all classes	1851	1833	1974	2103	2267	2890	2421	2636
Class — I	25	24	29	34	48	75	105	148
Class — II	42	39	45	54	78	96	130	183
Class — III	136	143	154	195	248	336	459	582
Class — IV	395	367	374	446	514	631	745	873
Class — V	756	727	753	816	939	1156	763	678
Class — VI	494	535	616	555	437	596	219	172

Sources : Census of India 1971. Series I Part II (A) I General population Tables, pp : 201-204 tribute to further economic development.

---

* Mrs. Nair is Lecturer in Economics, S. P. W. College, Tirupati (A. P.)

But such a situation only serves as a warning signal for the negative effect of urbanisation. Sooner or later, the downward trend starts exhibiting all the evils of over-urbanisation. While the pull factors gain momentum, the administrative machinery finds it burdensome to maintain the quality and quantity of public utilities and other amenities to the people. As the inflow of people towards these regions increases, the administrative machinery becomes less capable of meeting the additional requirements of the people and to maintain the desirable standard in the case of all civic amenities. This is the situation one comes across in big metropolitan cities like Calcutta in India. Over-urbanisation in such metropoliton cities reflects all the evils like housing problem, water scarcity, lack of medical aid, employment problem, spreading of slums, increase in the number of beggars, povement dwellers, higher crime rate, atmospheric pollution and so on. They affect the economic development in two ways.

Firstly, the rural migrant who comes to the metropolitan city with the hope of getting a decent job is disillusioned once he realises the situation there. Having left his village in search of a job, he does not like to go back with a feeling of defeat. He struggles hard to find a job. Sometimes he fails in his attempt and becomes one among the jobless, houseless poor. Even when he gets a job, it may not be to his satisfaction and may not be equalent to his qualification. Poverty, lack of job satisfaction or under-employment, lack of proper accommodation and other minimum conforts of life become the root cause of frustration.

Secondly, anticipating this outcome of over urbanisation, the administrative machinery is compelled to change the pattern of expenditure. Expenditure on developmental programmes are given only secondary importance. The primary concern of the administration becomes the provision of basis civic amenities and other requirements to the people and the multiplier starts working in the reverse direction. Urbanisation, after a particnlar stage (i.e., beyond optimum level) acts as an impediment for further economic development.

The optimum however is not a rigid one. It is a relative term rather than an absolute one. The optimum level depends upon the capacity of the region in providing all the amenties to the public in a fair manner. Greater capacity always raises the level of optimum and a lower of optimum is an indication of lesser monetary, fiscal, administrative and other capacities of the administrative machinery.

Three factors are responsible for this trend. The first factor relates to the attitude of the migrant. The migrant in most cases desires to move towards a big metropolition city, ignoring all small and medium-sized towns and cities, because of the desire to live in a well known metropolitan city. The natural outcome is the over crowding in these big cities. This is evident from the data available. It can even be pointed out that urban growth in India has been mostly due to the urbanisation of very few big cities. For example, Calcutta, has a population of 91.65 lakhs as on March 1, 1981. The corresponding figure for the year 1971 was 70.31 lakhs. This is followed by Greater Bombay, Delhi, Madras, Bangalore, Hyderabad, Ahmedabad, Kanpur, Pune, Nagpur, Lucknow and Jaipur.

The urban growth of small and medium sized towns and cities is not quite significant. In fact, there has been a degeneration of smaller towns. From the table given in the previous page it can be seen that, over the period from 1901 to 1971, there has been a decrease in the number of class V and Class VI towns. Partly, this may be due to the tendency of the smaller towns to go up to the higher classes. Still, the fact remains that the smaller and medium sized towns and cities are not given their due importance in our development programmes.

The second factor responsible for such a situation relates to the lack of proper planning of the towns and cities in India. It is even said that many cities and towns in India are nothing but overgrown villages. Further the investment decisions are biased by other considerations rather than favourable economic factors. The third factor which is of no less importance relates to the tremendous increase in population. The 1981 census (provisional figures) shows that the population of India has doubled to 68.4 crores since 1947. It was 54.81 crores in 1971. The net addition of 12.56 crores of people shows a 24.75 per cent growth in the last decade compared to 24.80 per cent in 1961-71 period. Though the percentage of growth has been more or less steady, there has been an absolute increase in population. This is mainly due to improved medical aid, lower death rate, increase life expectancy etc. The birth rate has actually declined from 41 per thousand in 1971 to 36 in 1981. The death rate however decreased from 15.7 per thousand in 1971 to 14.8 per thousand in 1981. The life expectancy has increased from 46 years in 1971 to 54 years in 1981. The density of population as a result of absolute increase in population has risen to 221 people per square kilometre as against 177 in 1971. All these have led to over crowding everywhere.

The supply of land being inelastic, the additional labour force in rural areas as a result of the population increase cannot be absorbed in agriculture. The surplus labour force will have to seek occupations other than agriculture and in the absence of sufficient non agricultural occupations in the villages the villager has to turn towards the city for a job. If urbanisation has to induce further economic development, then the present trend should be reversed and measures which will improve the situation have to be undertaken. They include (i) Rural developmental progrommes which reduce the rural urban dichtomy and minimise the push and pull factors leading to over-urbanisation of a few cities. This, in addition, will also lead to balanced regional development which is highly necessary for achieving a high level of economic development for any nation; (ii) Proper planning of towns and cities, particularly relating to land utilisation pattern, industrial development, educational development cultural and civic amenities development; (iii) Development of smaller and medium sized towns and cities for diverting the attention of the migrant towards these places and (iv) Further efforts to reduce the birth rate in a significant manner.

Coffee Marketing in India: A Critical Analysis

By **P. G. Chengappa** *and* **M. A. Muralidharan** *

While the marketing of most plantation crops in India are regulated, there is nothing comparable to the system evolved for the marketing of coffee, both for internal consumption and for exports. This is largely explained by the close control exercised by the Coffee Board, a statutory body set up to reconcile the interests of producers and consumers. In this research paper, the authors subject the system adopted by the Board to a searching analysis and discovers several shortcomings which need to be remedied by the policy makers.

THE marketing system for coffee in India is very much distinct from that of other agricultural commodities. The Coffee Board, a statutory body under the Ministry of Commerce, is solely responsible for procurement and distribution of all coffee produced in India including exports. This monopoly position of the Board has to be used for stabilizing prices both from the point of view of producers and consumers. All coffee produced in India are collected systematically by the Board through its own depots or through its agents who, in addition, cure it to the specification of the Board. The Marketing Committee of the Board decides the quantity to be released for domestic consumption and exports at the beginning for each year. This ratio at present is 45:55. In the internal market, coffee is released through pool sales (auctions) which are conducted once in a month but on different dates at Bangalore, Coimbatore and Vijayawada. Such internal sales account for 83 per cent of the total internal releases.

The distribution of coffee purchased at these auctions by the pool sale dealers, comprising mainly the wholesalers to the final consumers, is done in three forms: (1) through their own retail establishment, (2) other retailers and roasters and (3) the agency of wholesale dealers who in turn sell it to retailers and roasters. The three other forms of internal releases, comprise of allotments at prices secured in the pool sales as the basis, viz., (i) local sales in which allotments are made to the small retailers, roasters and hoteliers, (ii) allotments to Propaganda Department of the Board and (iii) allotments to cooperative societies. Unlike the release through pool sales, the retail price in these three channels is fixed by the Board so as to have a wider choice for the consumers to buy coffee at a fair price.

The export of coffee is either by export auctions wherein registered exporters participate, or directly by the Board on the basis of average prices secured at the auctions. These two channels of exports are in the same proportion. The pool sales and export auctions are governed by a reserve price scheme so as to ensure a fair economic return to the growers. The reserve price for internal auctions is based on cost of production while for exports, it is on the basis of international market situations. Thus the Board has to play a crucial role in satisfying the producers and also domestic consumers in addition to retaining an increasing share in the world market. An attempt is made in this paper to assess the effectiveness of the policies of the Board by analysing the prices and quantities at various levels of marketing for the last 25 years. In addition, the present marketing system is critically analysed by studying the pricing efficiency and also the price formation process at the internal auctions.

II

Analysis of price movements

The analysis is of prices at pool sale, wholesale and retail levels by using the spectral[1] technique indicates the existence of a very strong trend component with a contribution of 45 per cent to the overall variance of the series. The trend element is also dominant constituting 40 per cent in case of export auctions. The boom in coffee market all over the world during the seventies and the general inflationary situation have influenced the coffee prices in India also and this explains the presence of trend component in all the price series. The analysis extended to the detrended series clearly indicates the presence of a 24-month cycle in the pool sale auction prices of coffee explaining about 10 per cent of the total variance. This phenomenon has been explained in terms of the biological process of biennial bearing commonly found among the coffee plantations in India.

The results of cross spectral analysis (coherence values) indicates the domestic prices are highly associated at the levels, both in the long and short run with the pool sale auction prices leading the wholesale prices by one month and retail prices by about one and a half months. The wholesale prices in turn are found to lead the retail prices by a month indicating that there is a quick price signalling between various levels at the domestic market. So, it is obvious, that the initial price formation in the domestic market takes place at the pool sales auction level and as expected the wholesale and retail

---

* Agricultural Economist, Central Coffee Research Institute, Chikmagalur District and Professor of Agricultural Economics, Indian Agricultural Research Institute, New Delhi-12, respectively. This paper is based on the approved Ph. D. dissertation of the first author submitted to IARI.

[1] Spectral analysis is an integral part of the modern time series analysis and comprises of examining the time series from the point of its frequency domain. See Granger, C.W.J. and Hatanka, M. (1964) *Spectral Analysis of Economic Time Series*. Princeton University Press, Princeton.

prices also exhibit the presence of a 24 month cycle. The trend free spectra for export auction prices show a cycle of 36 months and are related to the fluctuations in the world market since India is a price taker with a contribution of less than 2 per cent to the world trade.

The predominance of seasonal component over the trend element is seen in the estimated spectra for the quantities sold in the internal market as well as those sold in export auctions. The seasonals are more pronounced (about 35 per cent) in case of the quantities sold at export auctions than the quantities released in the internal market (15 per cent). The seasonality can be explained by the very machanism of release of coffee by the Board. Purposely, more releases are made for exports soon after the harvest which incidentally is the beginning of the calender year, so that an adjustment could be made for internal releases.

Further, the crop comes to harvest much earlier in India than in Brazil and other important Latin American coffee producing countries which provides an opportunity to push more of our coffee stocks. This obviously creates a 12-month cycle. In most of the years, as indicated by the low carry-over stocks, coffee produced in a particular season is released in that season itself either in the internal or export market because of high costs of storage and also due to the fact that coffee being a hygroscopic commodity, loses its quality if stored for more than 18 months. Thus the releasing pattern is highly related to the production of coffee in India. Though the internal consumption stood around 40,000 tonnes for the last 10 years, the seasonality has changed over years and also within years (complex demodulation and remodulation of series).

In general, in the internal market, more of coffee is released during and immediately after the peak harvest months of November, December and January. In certain years, more quantities were released at the end of the calender year which appears to be a desperate bid to clear the stocks. The strategy of the Board is to make a steady availability of coffee in the internal market with uniform releases throughout the season based on crop estimation in the beginning of the season. The estimation procedure solely based on visual examination at various levels seems to be not adequate since it invariably falls below or above the actual production.

Thus, if the estimate happens to be more than the actual production, naturally, more quantities are released in earlier months with comparatively less quantities at the end. If it is an under-estimate, the reverse is true mainly because of the problem of storing and quality. So the need for a more realistic estimate is imperative for orderly release, although the quantities released are not related to the prices secured in the short run. This is mainly due to the operation of the reserve price scheme which otherwise would have resulted in the fluctuation of prices according to the quantity or else the reverse would have been also true. However, at periods of more than 12 months, quantities are found to lead the prices indicating long term responses.

The biological limitation of coffee bearing with low and high production in alternate years (biennial bearing) seems to have been exploited by the traders, leading to similar 24-month cycle in internal prices. The cyclical component in internal prices is highly associated with the seasonal component in releases of coffee in the long run period. The analysis of dynamics of these cycles in prices and quantities over the years by using the complex demodulation technique shows a tendency towards an increase in the amplitude over the years especially in the seventies. The increase in cyclical amplitudes of prices in the seventies is due to the Brazilian frost and also as a consequence of expectations raised by International Coffee Agreement.

The fluctuations in domestic prices are far less than in export prices. The coherence values between the export and pool sale prices are not only low but also insignificant at all frequencies indicating lack of any association between them. This clearly shows that the export market for Indian coffee is totally distinct from domestic market. This is as a result of marketing policies like separate auctions with different reserve prices and also separate release arrangements. Thus the Board's policy has resulted in insulating the domestic market for coffee from the violent prices fluctuation in the international market to a great extent.

In an attempt to understand the pricing efficiency, it is observed that domestic coffee markets are highly integrated at all levels. The relative efficiency is maximum at pool sale with a declining trend from wholesale to retail level for want of adeqate control by the Board. The location of distributional points and institutional constraint of differential sales tax are found to influence the movement of prices in unison. The markets located in Karnataka are more efficient than those within Tamil Nadu.

The pool sale auction prices are important to producers in determining their income and to the consumers in allocating their scarce resources since they form the basis for the retail prices. So it is important to know the price formation process at pool sale auctions. A detailed study of the nature of price movements and factors affecting the pool sale auction prices indicated some interesting features of coffee marketing in India. The analysis of variation of prices secured for all lots of coffee sold at pool sale auctions during a month reveals the importance of grading, storage locations and auction centres in explaining the price variation. The extent of variation due to the latter two factors is interpreted in terms of differential sales tax in important consuming states.

The advantages of conducting auctions at Bangalore and Coimbatore centres are absent at Vijayawada and hence there is a need to look in greater detail the cost economy for its possible elimination in view of mounting marketing costs over the years. The application of non Neuman ratios to the prices secured for same grade of different lots of coffee within a pool sale auction indicates the random nature of price movements. Most of the economists believe that 'random walk model of prices is akin to perfect competition. However, the auction mar kets for coffee are far from perfect due to lack of competition, mainly attributed to the absence of effective number of bidders, expecially at Vijayawada, wherein most of the lots are sold at the reserve price. The collusion among the bidders is found to aggravate the market imperfections. The Box-Jenkins method, an auto-regressive integrated moving average (ARIMA) class of model is found to give good forecasts, of the auction prices.

III

Policy Implications

While drawing conclusions from this study, it should be emphasised that the main focus has been on the nature and behaviour of prices, one of the sub-systems of coffee marketing. The study of technical efficiencies in marketing by comparing the costs of rendering place, time and form utilities would have given more weight in assessing the efficiency of the present marketing system. A few implications of this study are worth noting. The existing marketing system for coffee in India has succeeded to a certain extent in protecting the producers' and consumers' interest with a fair degree of spatially integrated markets. Even so, there is vast scope for improving the marketing efficiency by increasing the degree of competetiveness in the internal auctions and also in further reducing the cyclical fluctuations in coffee prices and releases in the internal market. The specific suggestions in this regard are as under:

1. The 24-month cycle in internal coffee prices is releated to the biennial coffee production. The price cycle is related to the seasonality component of releasing pattern in the long run. This only shows that the Board has just collected the coffee from the planters without any attempt to counteract the cyclical fluctuations. The cyclical fluctuations can be countered to some extent by following an appropriate storage and release policy. The Board, with all its monopoly position to procure and sell all coffee, should have done better. The absence of reserve price would have virtually meant the pool sale dealers (traders) actually dictating the price since the quantity released has no relevance in the short run. Here again, the rationale of fixing the release price which should ensure a fair price to the planters is far from satisfactory since it is revised once in 3 to 4 years even though the input prices are always on the increase. No doubt, the planters in the past several years have received more than double the reserve price solely due to booms in international markets. In the event of a fall in export prices below the domestic prices as prevailed prior to the year 1972, it will become a challenging task for the Board to ensure remuenrative prices to the growers, since the scope for increasing the domestic prices is very much limited. The increasing cost of marketing will add to this problem. So it is very necessary that the reserve price is completely linked with cost of production with a provision for normal profit.

2. The present system of crop forecasting based on which releases are made does not seem to be adequate. The need for a realistic forecast and also an optimal releasing pattern based on consumer demand in the domestic market on a scientific basis is necessary, especially in the years when more of coffee comes into the market. The present system of releases at the export auctions is quite adequate.

3. The biennial bearing habit of the coffee plants is the main hurdle in crop forecasting. Hence it would be worthwhile to explore the possibilities of stabilizing the yields through genetic engineering although there is evidence that irrigation at critical period of blossoming can even out crop cycles. But the scope for such cultural practices is a long way to go because of the limitation of the availability of water at such critical periods and also high initial costs of investment which most of the small holdings cannot afford.

4. The prices secured at the pool sale auctions at different centres vary with the extent of prevailing sales tax at different states. The merit of conducting auctions at Bangalore and Coimbatore is distinctly absent at Vijayawada. Moreover, at Vijayawada, most of the lots are sold at reserve price implying lack of any competition. Thus, it will be worthwhile to eliminate this centre if there exists any cost economy.

The matter that concerns most is the existence of market imperfactions in the form of lack of competition, collusion among bidders and also speculative activities of the bidders in spite of full control by the Board. To improve the market efficiency in this direction, the following suggestions are made.

a) A constant vigil has to be kept on the stocks of the pool sale dealers and it should be made mandatory for them to declare their stocks before making purchases at the auctions. If needed, such of those dealers who already possess that particular month's requirement as assessed over the previous few months' purchases should be debarred from bidding.

b) The lot size also limits the effective number of bidders at the pool sales auctions of coffee. Most of the lots (about 95 per cent) put up for auction vary in size from one to five tonnes. Even an ordinary grade like Robusta Cherry AB at the auctions requires an outlay of about Rs. 8,500 per tonne which obviously implies the elimination of the small traders with only a small number of wholesalers at the pool sales auctions. Thus the lot size may reduce the number of potential bidders and thereby the degree of competition also.

c) Another method is to make steady avilability of coffee to the consumers through other channels of release so that enough of coffee is freely available with no scope for speculation. There is a provision for release of 10 per cent of coffee meant for internal consumption through local sales, 15 per cent through cooperative societies and 10 per cent through Propaganda Department of the Board. Although ⅓ of coffee is earmaked for the above three methods of releases, the actual quantities released by these methods for the last 5 years account for only about 18 per cent. Here again, the influence of the large pool sale dealers appears to play a role to their advantage. So there is a need to streamline these releases so that the consumers have wider choice in checking the manipulation of the intermediaries.

CANARA BANK

BALANCE SHEET AS AT

CAPITAL AND LIABILITIES (Contd.)	1980 Rs. Ps.	1980 Rs. Ps.	1979 Rs. Ps.	1979 Rs. Ps.
Brought Forward		2330,98,30,900.85		1810,21,87,027.48
7. **OTHER LIABILITIES :**				
i) Rebate on Bills	5,42,75,801.81		5,48,43,569.41	
ii) Inter-Branch/Office Adjustments	———		30,22,13,947.91	
iii) Liabilities on account of assets taken for collection from taken-over Banks as per contra	25,05,191.94		25,13,595.46	
iv) Others	33,49,41,478.69	39,17,22,472.44	27,00,33,924.12	62,96,05,036.90
ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS AS PER CONTRA:		230,31,57,605.81		165,20,88,095.74
PROFIT AND LOSS ACCOUNT :				
Balance of Profit Brought Forward	25,98,396.47		25,63,937.36	
Transferred to Central Government	25,98,396.47		25,63,937.36	
Profit for the year	4,25,64,948.02		3,75,98,396.47	
Less: Transfer to Reserve Fund in terms of Section 17 of Banking Regulations Act, 1949	2,00,00,000.00		2,00,00,000.00	
Transfer to Reserve for contingencies	2,00,00,000.00		1,50,00,000.00	
	4,00,00,000.00		3,50,00,000.00	
Balance being amount to be transferred to Central Government under Section 10(7) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970		25,64,948.02		25,98,396.47
CONTINGENT LIABILITIES :				
a) Claims against the Bank not acknowledged as debts	69,09,368.82		60,98,108.64	
b) Letters of Guarantee given :				
i) On behalf of Constituents	275,63,26,335.00		265,09,52,315.19	
ii) On behalf of Directors or Officers	———		———	
c) Bills of Exchange rediscounted	31,81,45,600.70		43,95,03,698.96	
d) Outstanding Forward Exchange Contracts	155,81,30,249.32		80,34,21,743.31	
e) On partly paid-up Shares & Debentures	29,09,800.00		29,40,000.00	
f) Others	27,200.00		6,900.00	
TOTAL		2600,72,75,927.12		2038,64,78,556.59

OTE : (1) There are old and current differences or unadjusted items remaining to be cleared at certain branches in respect of: (a) Balancing of General Ledgers with Subsidiary Ledgers; (b) Clearing Differences; (c) Bills under Collection; and (d) DD's paid without Advice. Continuing steps are being taken to reconcile and/or locate the old items and or differences and/or make appropriate adjustments thereon.

(2) Inter Branch Account reconciliation has been done as on 31st December 1980. However, certain items remain to be cleared.

(3) In respect of certain premises acquired by the Bank documentation formalities are yet to be completed.

EAD OFFICE
NGALORE-560 002

te : 14th May, 1981

B. VITTAL BALIGA
Assistant General Manager

C.E. KAMATH
Chairman & Managing Director

C.S. SUBRAMANIAM
N.A. MUJUMDAR
C.S. VISWAM
Directors

31st DECEMBER 1980

PROPERTY AND ASSETS (Contd.)	1980		1979	
	Rs. Ps.	Rs. Ps.	Rs. Ps.	Rs. Ps.
Brought Forward		2131,70,11,350.65		1712,63,82,405.73
6. BILLS RECEIVABLE BEING BILLS FOR COLLECTION AS PER CONTRA:				
a) Payable in India	98,12,38,571.09		88,28,27,533.98	
b) Payable outside India	26,72,04,410.52		17,21,42,082.91	
		124,84,42,981.61		105,49,69,616.89
7. CONSTITUENTS' LIABILITIES FOR ACCEPTANCES, ENDORSEMENTS AND OTHER OBLIGATIONS AS PER CONTRA:		230,31,57,605.81		165,20,88,095.74
8. PREMISES (Including Leaseholds) Less Depreciation (Note. 3)				
Original Cost	2,07,04,884.49		2,01,65,153.27	
Additions during the year	1,38,75,131.80		5,66,190.59	
	3,45,80,016.29		2,07,31,343.86	
Deductions during the year	1,35,988.07		26,459.37	
	3,44,44,028.22		2,07,04,884.49	
Depreciation written off to-date	52,74,431.00		45,50,400.37	
		2,91,69,597.22		1,61,54,484.12
9. FURNITURE AND FIXTURES LESS DEPRECIATION:				
Original Cost	14,54,42,541.13		12,37,16,231.87	
Additions during the year	2,73,13,743.73		2,27,30,849.09	
	17,27,56,284.86		14,64,47,080.96	
Deductions during the year	9,90,418.80		10,04,539.83	
	17,17,65,866.06		14,54,42,541.13	
Less: Depreciation written off to date	7,45,75,369.85		6,22,20,743.95	
		9,71,90,496.21		8,32,21,797.18
10. OTHER ASSETS:				
i) Interest accrued on Investments	10,14,25,226.42		6,00,00,382.42	
ii) Library, Stationery, Stamps etc.	3,39,70,162.58		2,56,08,611.90	
iii) Prepaid expenses and recoverables etc. (includes amount spent on "Premises under construction")	49,49,68,279.25		36,52,38,157.30	
iv) Assets taken for collection from taken-over Banks as per contra	25,05,191.94		25,13,595.46	
v) Inter-Branch/Office adjustments	37,92,04,089.08		—	
		101,20,72,949.27		45,33,60,747.08
11. NON-BANKING ASSETS ACQUIRED IN SATISFACTION OF CLAIMS: At estimated realisable value		2,30,946.35		3,01,409.85
TOTAL		2600,72,75,927.12		2038,64,78,556.59

(4) As a result of revision of Pay Structure of Workmen and Officers with effect from 1.9.1978 and 1.7.1979 respectively, the quantum of additional liability on account gratuity payable to staff has not been ascertained actuarially. However, provision has been made on an approximate basis for the gratuity payable to staff.

(5) Bonus payable to staff for the year 1980, according to the Payment of Bonus Act, 1965, will be met out of amount transferred from the Current years Profit to Reserve for Contingencies.

(6) There are claims by the employees for additional bonus for the years 1974 to 1979 not admitted by the Bank.

ASHOK NARAYAN
M.V. SIRUR
J. ATCHUTARAMA RAJU
Directors

S.D. GAONKAR
N.C. KRISHNAN
S. NAZAR MOHAMED
Lt. Gen. K.P. CANDETH (Retd.)
Directors

In accordance with our report attached.
K.P. RAO & CO.
GEORGE READ & CO.
SURI & CO.
S.P. CHOPRA & CO.
Chartered Accountants

CANARA BANK

PROFIT AND LOSS ACCOUNT FOR THE

EXPENDITURE	1980 Rs. Ps.	1979 Rs. Ps.
1. Interest paid on Deposits, Borrowings etc.	117,39,89,028.61	95,08,73,184.65
2. Salaries and Allowances, Provident Fund & Gratuity	44,13,43,276.26	36,81,45,163.81
3. Directors' and Local Committee Members' Fees and Allowances	27,645.55	27,488.20
4. Rent, Taxes, Insurance, Lighting etc.	5,59,96,947.03	5,04,27,364.30
5. Law Charges	6,81,087.21	5,60,863.30
6. Postage, Telegrams and Telephone Expenses	1,75,27,341.78	1,62,28,910.53
7. Auditors' Fees and Travelling Expenses	11,80,000.00	10,30,000.00
8. Depreciation on and Repairs to Bank's Property	1,71,42,463.05	1,39,20,645.66
9. Stationery, Printing, Advertisements, etc.*	1,86,56,937.27	1,50,51,090.84
10. Expenditure on Non-banking Assets and Loss from sale of, or dealing with such Assets	32,020.90	1,341.64
11. Other Expenditure	7,83,42,547.59	5,54,59,621.88
12. Balance of Profit	4,25,64,948.02	3,75,98,396.47

NOTE :

PARTICULARS OF REMUNERATION RELATING TO CHAIRMAN & MANAGING DIRECTOR

	1980 Rs. Ps.	1979 Rs. Ps.
1. Salaries	52,800.00	49,950.00
2. Employer's contribution to Provident Fund	3,999.96	4,162.50
3. Travelling Allowance	1,980.00	2,100.00
4. Other benefits and monetary value of perquisites (estimated)	23,165.05	13,618.69
	81,945.01	69,831.19

* Includes expenses on Publicity and Public Relations amounting to Rs. 45,17,140.48 (previous year Rs. 28,35,789.16).

TOTAL	184,74,84,243.27	150,93,24,071.28

Head Office :
BANGALORE-560 002

Date : 14th May, 1981

B. VITTAL BALIGA
Assistant General Manager

C. E. KAMATH
Chairman and Managing Director

C. S. SUBRAMANIAM
N. A. MUJUMDAR
C. S. VISWAM
Directors

YEAR ENDED 31st DECEMBER 1980

INCOME	1980	1979
(Less provision made during the year for bad and doubtful debts, taxation and other usual or necessary provisions)	Rs. Ps.	Rs. Ps.
1. Interest and Discount	170,33,09,339.51	138,50,47,823.04
2. Commission, Exchange and Brokerage	14,13,72,152.49	12,07,90,794.51
3. Rents	2,83,187.00	2,94,565.15
4. Net Profit on sale of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	—	—
5. Net Profit on revaluation of investments, gold and silver, land, premises and other assets (not credited to Reserves or any particular Fund or Account)	—	—
6. Income from Non-Banking Assets and Profit from sale of, or dealing with such Assets	830.15	726.66
7. Other Receipts	25,18,734.12	31,90,161.92
TOTAL	184,74,84,243.27	150,93,24,071.28

ASHOK NARAYAN M. V. SIRUR I. ATCHUTARAMA RAJU *Directors*	S. D. GAONKAR N. C. KRISHNAN S. NAZAR MOHAMED Lt. Gen. K. P. CANDETH (Retd.) *Directors*	In accordance with our report attached K. P. RAO & CO. SURI & CO. GEORGE READ & CO. S. P. CHOPRA & CO. *Chartered Accountants*

CANARA BANK

PARTICULARS ATTACHED TO AND FORMING PART OF THE BALANCE SHEET AS AT 31st, DECEMBER 1980

	PARTICULARS OF ADVANCES	1980 Rs. Ps.	1979 Rs. Ps.
(i)	Debts considered good in respect of which the Bank is fully secured	**931,06,35,799.99**	833,77,73,785.29
(ii)	Debts considered good for which the Bank holds no other security than the debtors' personal security	**143,22,21,298.52**	106,17,25,725.12
(iii)	Debts considered good, secured by the personal liabilities of one or more parties in addition to the personal security of the debtors	**98,00,51,516.61**	81,36,84,496.98
(iv)	Debts considered doubtful or bad not provided for	—	—
		1172,29,08,615.12	1021,31,84,007.39
(v)	Debts due by Directors or Officers of the Bank or any of them either severally or jointly with any other persons	**13,77,87,199.65**	12,11,02,815.12
(vi)	Debts due by Companies or Firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents, or in the case of Private Companies, as members	—	—
(vii)	Maximum total amount of advances including temporary advances made at any time during the year to Directors or Managers or Officers of the Bank or any of them either severally or jointly with any other persons	**13,84,64,549.92**	12,11,02,815.12
(viii)	Maximum total amount of advances including temporary advances granted during the year to the Companies or Firms in which the Directors of the Bank are interested as Directors, Partners or Managing Agents or in the case of Private Companies, as Members	—	—
(ix)	Due from Banking Companies	**6,52,22,980.05**	7,15,28,956.67

HEAD OFFICE :
BANGALORE-560 002
Date : 14th MAY 1981
B. VITTAL BALIGA
Assistant General Manager
C. E. KAMATH
Chairman & Managing Director

C. S. SUBRAMANIAM
N. A. MUJUMDAR
C. S. VISWAM
ASHOK NARAYAN
M. V. SIRUR
Directors

I. ATCHUTARAMA RAJU
S. D. GAONKAR
N. C. KRISHNAN
S. NAZAR MOHAMED
Lt. Gen. K. P. CANDETH (Retd.)
Directors

In accordance with our report attached
K. P. RAO & CO.
SURI & CO.
GEORGE READ & CO.
S. P. CHOPRA & CO.
Chartered Accountants

CANARA BANK

AUDITORS' REPORT

THE PRESIDENT OF INDIA,

1. We have audited the foregoing Balance Sheet of CANARA BANK as at 31st December, 1980 and also the foregoing Profit and Loss Account of the Bank for the year ended upon that date, in which are incorporated the returns of 29 branches/offices audited by us, and 600 branches/offices audited by other auditors and unaudited returns in respect of 674 branches/offices not visited by us. The branches/offices to be audited by us and the branches/offices to be audited by other auditors have been selected by the Bank in accordance with the guidelines issued to the Bank by the Reserve Bank of India.

2. The Balance Sheet and Profit and Loss Account have been drawn up in Forms 'A' and 'B' respectively of the Third Schedule of the Banking Regulation Act, 1949. Accordingly, they disclose such matters as were required to be disclosed in the case of Banking Companies prior to nationalisation by virtue of the provisions of the said Act, as read with the related provisions of the Companies Act, 1956. Subject to the limitations of such disclosure and on the basis of the audit indicated in the first paragraph, we report that :

(a) In our opinion and to the best of our information and the explanations given to us and as shown by the books of the Bank :

  i) The Balance Sheet read with the notes thereon is a full and fair Balance Sheet containing the necessary particulars and it is properly drawn up so as to exhibit a true and fair view of the affairs of the Bank as at 31st December, 1980 ;

  (ii) The Profit and Loss Account read with the notes thereon shows a true balance of profit for the year covered by the Account ;

(b) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory ;

(c) The transactions of the Bank which have come to our notice have been within the powers of the Bank ; and

(d) The returns received from the Offices and Branches of the Bank have been found adequate for the purpose of our audit.

K.P. RAO & CO.
Chartered Accountants

SURI & CO.
Chartered Accountants

GEORGE READ & CO.
Chartered Accountants

S.P. CHOPRA & CO.
Chartered Accountants

BANGALORE- 560 002
Date : 14th May, 1981.

Difficult Year for HINDALCO

THE year 1980 was a difficult one for Hindustan Aluminium Corporation Limited. Although its sales turnover (including excise duty) increased from Rs. 122.49 crores in 1979 to Rs. 145.76 crores, the company's gross profit showed a fall from Rs. 10.59 crores to Rs. 3.23 crores. Its net profit was also lower, at Rs. 51 lakhs against Rs. 3 crores in the previous year. Equity dividend recommended is Rs. 1.25 per share.

The adverse results are explained by (a) the decline in the production of the metal due to power constraint (b) the fixation of retention price which did not fully cover the cost of controlled items and (c) the upward revision of the power tariff by the U.P. Electricity Board. However, the higher tariff of Rs. 32.2 paise and 35.3 paise, against 19.57 paise earlier, is under dispute but if the Government of India agrees to the higher rate, the additional liability will be reflected in the next year's results. The Directors point out, in their report, that even the meagre profit of Rs. 51 lakhs is illusory since it is derived from the non-manufacturing activities of the company. The Directors have also criticised the high excise duty levied on aluminium, at Rs. 4, 326 per tonne. The company has embarked upon a Rs. 100-crore expansion programme for which it is making collaboration arrangements with Hungarian and Norwegian firms.

Baroda Rayon Records Higher Sales

THE Baroda Rayon Corporation Limited recorded a sales turnover of Rs. 51.40 crores (including excise duty) in 1980, commpared to Rs. 48.12 crores in 1979. Despite the higher sales, the company recorded lower gross profit which, at Rs. 5.02 crores, was lower than the previous year's profit of Rs. 7.87 crores. The net profit was also lower, at Rs. 1.12 crores, against Rs. 2.53 crores in 1979. This is a reflection of the cost-escalation, wage rise and the higher price of petroleum products which tended to narrow the profit margin. The recommended equity dividend is Rs. 15 per share.

The company expects to record higher production in 1981 in view of the addition to the nylon plant capacity. The company is also increasing its sulphuric acid plant capacity from 14,400 tonnes to 21,600 tonnes. Its nylon tyre cord plant is expected to be commissioned later this year. The company has signed an agreement with an Italian firm for setting up a caprolactam recovery plant. Its applications for licences to expand the capacity for producing polyester filament yarn and nylon filament yarn and tyre cord is pending with the government.

GIIC's Sanctions Rise By 53 per cent

THE Gujarat Industrial Investment Corporation registered a phenomenal growth in its development banking activities in 1980-81. The total sanctions accorded by GIIC during 1980-81 amounted to Rs. 27.09 crores, a rise of 53 per cent over the figure recorded in 1979-80. GIIC, with a much smaller sphere of operations than similar corporations in many other States, now stands second in the country. The corporation crossed a significant landmark this year, as its total sanctions exceeded the figure of Rs. 100 crores, reaching Rs. 111 crores.

During the year, disbursements increased to Rs. 14.65 crores against the Rs. 8.61 crores during the year 1979-80 – a rise of 70 per cent over the past year. The cumulative disbursement for all the sanctions touched Rs. 54.49 crores as on March 31, 1981. The sanctions accorded by the corporation in 1980-81 are likely to catalyse investment of the order of Rs. 89.08 crores in Gujarat. The total cumulative investment generation would be of the order of Rs. 427.46 crores upto the end of March, 1981. During the year 1980-81, the corporation sanctioned Rs. 9.86 crores in backward areas. The IDBI sanctioned a total refinance of Rs. 9 crores and the disbursement availed of by GIIC from IDBI was Rs. 8.30 crores as against Rs. 4.54 crores availed of in 1979 80. At the end of March 1981, the Corporation has secured total sanctions of Rs. 27.97 crores and has availed of Rs. 16.56 crores from IDBI.

Somany Pilkington's Earns More

The sales of Somani-Pilkington's Limited improved from Rs. 5.12 crores in 1978-79 (year ended June 30) to Rs. 6.35 crores in 1979-80. The company's after-tax profit showed an increase from Rs. 22.69 lakhs to Rs. 34.81 lakhs. The directors have recommended an equity dividend of 12.5 per cent. Due to a 24-day strike, the company lost nearly two month's production. This resulted in a slightly lower production this year, at 9,236 tons, as against 10,038 tons last year. However, to meet the shortage of the products of the company and the consumers' preferential needs, a better product mix has been planned. Inspite of lower production, the profit was higher. Timely replacement of the old machines with modern equipment has also helped to improve the quality and economise on production. The company is putting up another unit to manufacture floor and wall tiles. This will be in addition to the planned expansion of capacity at the existing unit.

SOUTHERN
ECONOMIST

June 15, 1981

CONTENTS

EDITORIALS 1
Middle East on Short Fuse; Indo-Pakistan Relations

CURRENT TOPICS 3
Tapping ADB, For A Change; Aid Consortium: Same as Before; When is Sugar Glut Coming?; Hopeful Outlook for Fertilisers; Oil Exploration: New Challenges; Wheat Procurement: Some Suggestions

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Public Sector Enterprises: An Assessment of Performance
By Mohd. Fazal
1981 Census Findings Point to New Direction in Population Policy
By P. Padmanabha

SPECIAL FEATURE ON INDIA'S EXPORT OUTLOOK *(Page 13 to 37)*

COMPANY NOTES 39
Escorts; Ashok Leyland; Larsen and Toubro; Atul; Carborundum Universal; Kirloskar Bros.; National Rayon; Colgate-Palmolive; Falcon Tyres; Apollo Tyres; Cadbury India

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Middle East on Short Fuse

NO peace-loving citizen of the world can afford to turn a blind eye to the blatant manner in which Israel committed a serious breach of international law. We are refering to its bombing a nuclear reactor in Iraq on the plea that it posed a threat to the security of Israel. This has brought the world to the brink another crisis. How this crisis can be defused should engage the minds of the world statesmen who have it in their power to influence the course of global events in one direction or another.

Let us state, at the outset, that Iraq, which is the victim of terrorism by a member of the international community, has not set a good example for peaceful coexistence. Taking advantage of the turmoil through which Iran was passing, Iraq unleashed a war with her neighbour. The war, which is still continuing, has shattered the economies of the two countries. Israel would not have dared to bomb the reactor near Baghdad, had the Islamic nations of the region shown a sense of unity in the pursuit of their common goals. The incident of June 7 may not, by itself, trigger a Third World War but it may mark the beginning of a drift in that direction.

Much depends, of course, on the stand that the United States will take on this issue when it comes up before a meeting of the U.N. Security Council. The pro-Israel stance of the United States is well known but if it exercises its veto to scuttle any resolution for enforcing U. N. sanctions on Israel, the hollowness of America's pretensions over safeguarding world peace will be thoroughly exposed. The least the Americans can do to reassure the world in general, and the Arab nations in particular, is to refrain from vetoeing the Security Council's resolution on Israel's air strike and to declare an embargo on the supply of military hardware to Israel.

The reason given by Israel's Prime Minister, Mr. Menachem Begin, for its raid reminds one of the story of the wolf and the lamb, in *Aesop's Fables*. The argument that if Iraq had been allowed to complete the nuclear reactor, the country would have perfected a nuclear device which would have been used against Israel is not borne out by facts. Iraq is a signatory to the nuclear non-proliferation treaty which opens up the nuclear plant under construction to inspection by the International Atomic Energy Agency. On the other hand, Israel is a non-signatory to the non-proliferation treaty. And what is more, it is reported to have clandestinely produced and stockpiled nuclear weapons. Israel's reckless action has now caused a setback to the Camp David accord, placing Egypt in an unenviable position.

Mr. Begin has already scuttled U.S. sponsored efforts to bring an understanding between Israel and Syria on the Lebanon crisis. Understandably, the placing of missiles in the Bekka Valley, by Syria, poses a threat to Israel but Israel's aggression in Lebanon on the plea of protecting the Christians there is condemned in many quarters. Since the Syrians are not likely to remove the missiles from the Valley, an Israeli attack on this region and on Syria cannot be rulled out. Such an action is sure to heighten Arab intransigience and encourage the hawks among them, notably Libya and P.L.O., to demand the obliteration of Israel as a nation. Already, there is talk of reorganising the Arab Deterrent Force which has been helping the Lebanese since 1976. And the Saudis are reported to have shown a readiness to bankroll this project to the extent of $ 4 billion.

Israel's bellicosity has assumed new dimensions after Mr. Reagan moved into the White House. Rightly or wrongly, the hawks in Israel seem to be under the impression that they are assured of American support in whatever they do. Unless President Reagan does something to disabuse them of this dangerous notion, they are sure to drag the Americans into the quagmire of a global crisis.

A look at the political map of Israel shows that more than half the area remains shaded. And the shaded portions represent occupied territories. They include part of the Sinai Peninsula which Israel has to vacate by April 1982 under the Camp David accord. Then there are other areas like the Gaza Strip on the Meditteranean coast, the West Bank (Begin calls it Judea and Samaria) and the Golan Heights. Israel's latest action raises serious doubts on whether she will ever loosen her hold on the occupied territories, including the Sinai Peninsula. The elections in Israel, which are scheduled for June 30, hold the key to the future of Israel as well as Middle East. If the Likud coalition headed by Menanchem Begin is replaced by the Labour party of Shimon Peres, probably it will pave the way for a process of reconciliation. If, on the other hand, Mr. Begin is re-elected, then world should brace itself for an escalation of hostilities.

Indo-Pakistan Relations

INDIA's External Affairs Minister, Mr. P.V. Narasimha Rao's visit to Pakistan last week appears to have brought about a thaw in India's relations with that country. However, further improvement in these relations depends on several factors—both internal and external. For one thing, President Zia-ul-Haq heads a country where internal dissensions run deep. The opposition, spear-headed by the Pakistan People's Party, remains suppressed but not liquidated. It poses a threat to Zia's political survival. For another, so long as the military regime in Islamabad remains tied to the apron-strings of the United States, New Delhi will be inclined to view its motives with some amount of suspicion.

Such limitations notwithstanding, Mr. Narasimha Rao's visit to Islamabad can be said to have resulted in bringing the two neighbouring countries a little closer. Both President Zia and his Foreign Minister, Mr. Agha Shahi, reiterated that the military hardware that Pakistan was acquiring would not be directed at India under any circumstance. General Zia even offered to sign a no-war pact, here and now. But the amount of military equipment that the United States has agreed to sell or gift away to Pakistan raises some genuine doubts over Pakistan's intentions. Acquisition of F-16 fighter-bombers (in squadron strength), missiles of varying range, anti aircraft guns, radar equipment and so on by Pakistan will naturally make our military strategists sit up and think. To say that all this is in conformity with the "sovereign right of the country to acquire arms for self defence" would be an exercise in verbal jugglery. The fact remains that, in the proxy fight between Washington and Moscow, the Americans are using Pakistan as just a client state. Having said this, one must however recognise the fact that Pakistan is under pressure to strengthen her defences on its western borders in view of the massive influx of refugees from Afghanistan and the strong military presence of Russia there. If the threat of Russian incursion into South Asia, beyond Afghanistan, is real, then such a threat cannot be met merely by Pakistan acquiring more military hardware.

Unfortunately, the joint communique issued at the end of Mr. Rao's visit does not mention of any in-depth discussion on this question. Similarly, India's External Affairs Minister does not seem to have received an assurance from the Pakistani rulers that they would refrain from raising the issue of Kashmir on the international plane. The Pakistanis have kept for themselves the option to rattle the sabre, whenever it suits them. But, yet it would be wrong to sprun the offer of a renewal of friendship made by President Zia. Both India and Pakistan seem to be veering round to the view that a streamlining of one's defences is quite in order. The very fact that the two countries have agreed to keep in touch on a continuing basis in regard to the parameters of their defence acquisitions shows that even an arms race can be given a touch of respectability. The Foreign Minister of Pakistan is scheduled to visit India later this year. One may hope that nothing untoward will happen in the meantime to warrant a change in this schedule.

MID-YEAR SURVEY OF BANKING

(Southern Economist, July 15, 1981)

The July 15 issue of *Southern Economist* will contain our Mid-Year Survey of Banking. The Survey contains, besides articles on various aspects of banking, an interview with leading bankers.

— PUBLISHER

CURRENT TOPICS

Tapping ADB, For A Change

THE smaller members of Asian Development Bank are concerned over India turning a borrower in the same manner that India is, over the prospect of China claiming a share in the resources of IDA. That both are not immediate prospects should be a matter of relief. China will start borrowing from IDA only after the commencement of IDA's seventh replenishment. Loans under the sixth replenishment are unlikely to be made to China. That means, India has nothing to worry on this score for another two years. The traditional borrowers of ADB can similarly expect the *status quo* in its lending pattern to continue till 1983.

India's Finance Minister, Mr. R. Venkataraman, who went to the Honolulu meeting of ADB at the end of April was keen on sounding the Bank about the prospect of India securing ADB loans. Something must have happened at the Bank's annual meeting to make him change his mind. On his return, he disclosed that India will not seek ADB's hard loans till 1983 and its soft loans till 1986. This is welcome news to traditional borrowers from ADB like Bangaladesh, Pakistan, Burma and Sri Lanka. India, as the third largest contributor to ADB's capital, has a strong voice in shaping ADB's lending policies. One of the two Vice Presidentships in the Bank is held by India. Of course, the dominant voice is that of Japan, which holds the post of the ADB President by virtue of its being the largest contributor of capital funds.

India, whose contribution to ADB's capital resources is of the order of Rs. 41 crores, has so far chosen to remain on the other side of the fence — the donor's side. Whether this act of self-denial is fully appreciated by the beneficiaries of ADB's assistance it is difficult to say. India's participation in regional development would have been more meaningful if the Bank had gone all out to utilise the goods and technical expertise available in India for the benefit of the Bank's poorer members. While there has been an increase in ADB's procurements from India — they have been of the order of Rs. 88 crores—India's full potential yet remains to be tapped. Being a regional institution, it is only fair that ADB should give a certain preference to India in this matter not merely because she is a major contributor of capital to the Bank but because she is in a position to share technical know-how with countries which need it.

India would have seriously compromised her position as a major supplier of equipment and know-how if she had started borrowing from the Bank. Mr. Venkataraman has done well in not pressing India's case at the Honolulu meeting. The more propitious time for India to commence borrowing from ADB — if it becomes necessary—would be 1982 when the Bank embarks on major replenishment and enlargement of its capital resources. With Indonesia and Malaysia becoming surplus in oil, the pressure on ADB's funds will have somewhat diminished by then.

Aid Consortium: Same as Before

AS expected, the aid-India consortium kept its aid pledges at the previous year's level. For 1981-82, this aid-givers' consultative group pledged $ 3.45 billion worth of assistance against roughly the same amount pledged last year. In real terms, this will be about 10 per cent less than what was given in 1980–81 but indexation of aid is a contradiction in terms. In terms of SDRs, the aid pledges amount to 2.82 billion against 2.73 billion in the previous year. The country-wise pattern remains the same, except for a marginal decline in the share of Britain and a slight increase in the share of the United States. The World Bank's contribution stays at the previous year's level of 2 billion dollars.

The $ 3.45 billion aid, equal to about Rs. 2,932 crores, will cover slightly more than half of the balance of trade gap but the purpose of developmental assistance is not wholly to provide relief in the area of trade. Aid is governed by other considerations too. Actually, the share of imports financed by net external assistance has steadily declined over the decades. It was 22 per cent in 1975–76 and less than 8 per cent in 1977-78. In the subsequent two years, it stood at 6 per cent. Even in terms of the resources raised by India for development, external assistance plays only a marginal role. As much as 90 per cent of the resources are raised within the country. Out of the aggregate resources of Rs. 172,210 crores needed to finance the Sixth Plan, the anticipated net inflow from abroad is only Rs. 9,063 crores. Even in this, net aid amounts to only Rs. 5,889 crores. The effectiveness of aid is also reduced to the extent that part of it has to be set apart for debt-servicing. In the seventies, debt-servicing accounted for one-third to half of the total aid authorisation. The ratio would have been higher but for the substantial "debt relief" provided by the aid givers. In the recent years, however, they are saved the necessity of providing debt relief on any significant scale.

Be that as it may, the Indian planners have reason to feel gratified over the outcome of the Paris meeting of the aid consortium. For one thing, many Western countries, including the United States, have effected drastic cuts in their aid budgets this year, as an anti-inflation measure. For another, because of the deterioration in India's balance of payments situation, the planners are feeling the need to raise external resources on a larger scale. Furthermore, the country's foreign exchange reserves, which stood at $ 7.2 billion a year ago, are getting fast depleted. They stood at $6billion (about Rs. 4,800 crores) in March this year. This is enough to finance barely five months' imports.

On the aid front, India task is rendered more difficult with China's membership of the World Bank. China, which is set on the road towards modernisation, needs external assistance on a truly gigantic scale. Indeed, China has been making efforts to secure aid both from international lending institutions and on a bilateral basis. However, fears that China's aid requirements will cut into India's share in assistance from IDA — World Bank's soft loan window — were allayed when the World Bank President, Mr. McNamara, was in India recently. He assured India that she can expect her usual share of 40 per cent (of IDA's total annual assistance) but the delay in committing the share of the U. S. towards IDA's sixth replenishment has cast a shadow over its future lending operations.

What is noteworthy is the fact that despite the serious problems that the country is facing on the economic front, the aid-givers are impressed by India's efforts pull herself up by her bootstraps. Apart from the good chit that Mr. McNamara gave to India when he visited this country, the background note that the World Bank has prepared on India, for the use of the consortium members, highlights certain redeeming features like the high savings ratio that India has achieved, the creditable performance on the farm front—particularly the foodgrains self-sufficiency—and the efforts she is making to step up domestic production of oil. However, if India is to retain the high credit rating which she now enjoys, the Government should make special effort to bring down the rate of inflation to a single digit without much loss of time.

When is Sugar Glut Coming ?

THE expectation of sugar production in 1981-82 reaching a record level of 70 lakh tonnes has not had any salutary effect on free sale prices. The current sugar year, which has still four more months to go, may end with a production of 52 lakh tonnes. With the previous year's carry-over of 6.81 lakh tonnes, the quantity available for consumption is of the order of 59 lakh tonnes. This should be enough to meet the consumption requirements which can be placed at 50 lakh tonnes. Since the supply position thus appears to be comfortable, the firmness in the market prices can only be explained by the vegaries of monthly releases and by the propensity of the traders to withhold part of the stocks meant for sale.

With the total availability in the 1981-82 season estimated at nearly 80 lakh tonnes, including about 8 lakh tonnes of carry-over stock, many are questioning the wisdom of continuing the system of dual pricing under which 65 per cent is sold at levy prices and the balance of 35 per cent is sold at the prices dictated by the market. The device meant primarily to protect the vulnerable sections, has not worked well and part of the leavy sugar generally finds its way into the "free" sale market. And in an year of bumper crop, the "levy" system becomes redundant since the prices, in any case, will come down to reasonable levels. Those who point to the sugar policy fiasco of 1977-78 when decontrol was tried forget the fact that the policy failed not because of the faulty working of the market mechanism but the ruling party tried to play politics with sugar.

If a change of policy is in the offing, some aspects of the sugar industry need to be carefully studied. Firstly, with increased cane production, there may be need for licencing new sugar factories more liberally. The 1981-82 target for sugarcane is 180 million tonnes, against an estimated production of 152 million tonnes in 1980-81. While the industry expects a bumper sugar production of some 70 lakh tonnes in 1981-82, the installed capacity at the end of 1980 81 was expected have gone up to 64.50 lakh tonnes. Unless new sugar units come up in the course of this year, sugar production in 1981-82 is likely to suffer from capacity constraint. It would seem that the planners' projection of domestic demand (6.64 million tonnes) and their capacity and production targets of 8 million and 7.6 million tonnes respectively for 1984-85 seem to be on the conservative side.

Again, a major cause of the fluctuations in sugarcane acreage is the unrealistic pricing policy for sugarcane. If past experience is any guide, the sugar factories invariably pay a price which is higher than the minimum fixed by the Government. For instance, while the minimum notified price in U. P. in 1980-81 ranged from Rs. 13 to Rs. 17.28 per quintal the factories paid up to Rs. 23. In Punjab the amount paid went up to Rs. 28. This was, in fact, the experience of most sugar producing states. Fixation of a higher minimum, linked of course to recovery, may help in (a) reducing the year-to-year fluctuations in cane acreage and (b) preventing a diversion of cane to the *gur* and *khandsari* sectors which will be in a position to pay more in view of the tax advantage they enjoy. From the consumers' point of view, it may also be desirable to maintain buffer stocks of the order of 10 lakh tonnes. The idea of holding buffer stocks should also appeal to the industry which has always found it difficult to secure enough bank credit to hold stocks on their own.

Hopeful Outlook for Fertilisers

DESPITE the delays caused by controversies over foreign tie-ups, as in the case of Thal Vaishet, the planners are fairly optimistic over achieving the target set for fertilisers. The demand for fertilisers by the end of the Sixth Plan, i.e., 1984-85, is estimated to go up to around 60 lakh tonnes of nitrogen and 23 lakh tonnes of phosphatic fertilisers. By the end of the Seventh Plan (1989-90), it is projected to rise further to 85 lakhs tonnes of nitrogen and 35 lakh tonnes of P_2O_5. If all the fertiliser projects under implementation are completed according to schedule, a capacity of 68.55 lakh tonnes will have been created for nitrogen and 15.30 lakh tonnes of P_2O_5 by 1984-85. However, since 100 per cent capacity utilisation is not possible, the attainable level of production by the end of the Sixth Plan is estimated at 42 lakh tonnes of nitrogen and 14 lakh tonnes of P_2O_5.

By the end of 1980-81, it is stated that a capacity of 45.75 lakh tonnes of P_2O_5 will have been created. This is expected to go up to 53 lakh tonnes of nitrogen and 14 9 lakh tonnes of P_2O_5 by the end of 1981-82. As against this, production in 1980-81 is uxpected to reach only 22 lakh tonnes of nitrogen, showing a capacity-utilisation of around 56 per cent. The lower capacity-utilisation is stated to be due to constraints in the availability of feedstock, irregular supply of inputs like power and coal and also due to labour troubles.

Finance will not be a major constraint in executing the fertiliser projects during the Sixth Plan since a liberal allocation of Rs. 2,367 crores has been made for this purpose. Discovery of sizable reserves of gas in the Bombay High and Bassein offshore areas has given a further boost to gas-based units envisaged during the Sixth Plan. Four gas-based plants have already been approved and the gas that will be available justifies the setting up of another two gas-based units.

Among the two projects for which the Government is in the process of choosing consultants, Thal Vaishet in Maharashtra has received a set back in view of the withdrawal by the World Bank of the $ 250-million loan following New Delhi's change of mind over the choice of the consultants. It has dropped the U. S. firm of Braun & Co., in favour of Haldor Topsoe in which the Italian firm of Snam Progetti has 51 per cent interest. As for the other project, viz , Hazira in Gujarat, Pullman Kellog, another U. S. firm, have been chosen as consultants, but the process chosen is that of Snam Progetti. Krishak Bharati Cooperative Limited, which has been set up to carry out the project, has already secured an IDA loan of $400 million, apart from smaller credits from Japan ($98.8 million) and U.K. ($99.8 million). KRIBHCO's Chairman, Mr. P. R. Dubhashi, disclosed recently that the Rs. 965-crore project will produce 1.4 million tonnes of urea annually. Since the country has plentiful supply of coal, the planners are making pioneering efforts to use coal gastification technology for producing fertilisers. Before setting up more plants based on this technology, the Government intends to watch the performance of the Ramagundam and Talcher plants which have recently gone into production.

Oil Exploration: New Challenges

IN his anxiety to reduce the oil gap, the Petroleum Minister, Mr. P. C. Sethi, is trying several permutations and combinations for speeding up oil exploration work. But no breakthrough is in sight. The foreign oil firms which have been short-listed — some 35 of them — for taking up exploration in 32 block identified by the Petroleum Ministry, do not seem to have envinced much interest in entering into firm contracts. Since, obviously, most of them are keen on production-sharing, New Delhi is finding it difficult to work out mutually acceptable terms. The Government is not too averse to production-sharing but it is reluctant to ofter more than 10 per cent to the foreign companies. But since the bids so far received and scrutinised were on the basis of a policy of excluding these companies from production-sharing, there will have to be a climb-down if foreign firms are to be brought to the negotiating table. In a recent press conference, Mr. Sethi gave an indication that production-sharing will not be taboo and that some of the firms which have not figured in the list of 35 may be invited for further exploratory talks. The idea behind this change of stand seems to be that the deeper off shore structures can be farmed out to foreign firms while ONGC can be left with the shallow areas.

Production figures make sombre reading. In 1979-80, for which complete figures are available, crude production stood at barely 12 million tonnes. Last year was a bad one because of the disruption in crude production in Assam, but in 1981-82, the total production — off-shore and on-shore— is expected to reach about 17 million tonnes. This may possibly lead to a reduction in crude imports by some two million tonnes, from 16.7 million tonnes 1980-81 to 14.50 million tonnes in 1981-82. Projections in respect of the Bombay High production is being revised upwards and Mr. Sethi expects the off-shore yield to go up to 23 million tonnes and the on-shore yield to some 11 million tonnes by 1983-84. Assuming that these optimistic projections hold good even for 1984-85 — the final year of the Sixth Plan— there will still remain a gap of 11.50 million tonnes between indigenous production (34 million tonnes) and anticipated demand (45.50 million tonnes). Beyond this period, the gap will widen further as the projected demand for 1989-90 is placed at 62 million tonnes.

Both Mr. P. T. Venugopal, Chairman of ONGC and Mr. C.R. Jagannathan, Managing Director of Oil India who visited the United States recently to attend a conference, put forward optimistic estimates of off-shore and on-shore oil reserves before their American audience. The problem, so far as Bombay High is concerned, is to secure the required number of platforms from other countries. In regard to the other oil-bearing regions, India has not been able to speed up the exploration work. For instance, while in the United States, there is an exploratory drilling density of one well in every 15 sq km. of prospective area, in India, the ratio is one well in every 750-1000 sq. km. of prospective area. Speeding up exploration work probably calls for a higher level of investment than the amount of Rs. 2,873 crores ear-marked for the purpose in the Sixth Plan. In view of the zooming price of crude, the planners should find a way of stepping up this investment preferably by involving foreign firms in the exploration work. We are thus back to square one.

Wheat Procurement : Some Suggestions

G. Venkatesalu writes: The recent visit to Chandigarh by Indira Gandhi to urge the state governments of Punjab and Haryana to take effective steps to fulfil the target set for the two states in procuring wheat has started yielding good results. According to the Agriculture Minister, the country's present food policy depended on both the states. However, the government will not be able to meet its target of 9.5 million tonnes of wheat during the rabi season. The Agriculture Ministry is hopeful that at least 8 million tonnes will be procured and hence there will be no need to import foodgrains.

The foodgrain stocks with the government during February stood at 11.4 million tonnes as compared to 16.7 million tonnes of foodgrains at the end of 1979. This alarming shortfall made Indira Gandhi to urge the states of Punjab and Haryana to speed up wheat procurement. Now the level in procurement has increased considerably. Punjab has so far procured 3.3 million tonnes against the target of 4.7 million tonnes and Haryana one million tonnes against the target of 1.7 million tonnes. Procurement of wheat in U. P. stood at 9.5 lakh tonnes against the target of 25 lakh tonnes. Total procurement so far has been over five million tonnes.

Though, to some extent, the shortfall in procurement in Punjab and Haryana can be attributed to the farmers' agitations in the two states earlier this year and the late harvest and unseasonal rains, the not–so–vigorous efforts in procurement of wheat by the two state governments is also the reason. Political reverberations such as Devi Lal's call to the farmers to keep away from *mandis*, and the Haryana Chief Minister Bhajan Lal's initial refusal to allow the FCI to expand its operation from its present intake of 20 per cent of the wheat arriving in the *mandis* to 60 per cent affected the procurement of wheat in the states. The hoarders of wheat are confident of getting more than Rs. 150 per quintal some time later, against the present official procurement price of Rs. 130. The Union Government should urge the two states to take effective steps against hoarders, unscrupulous farmers and traders.

The Centre is keen on procuring 9.5 million tonnes of wheat this season from these two surplus states in order to have a buffer stock of over 20 million tonnes. It is estimated that wheat production for the year would reach to 36 million tonnes. If the procurement target is achieved, it can help stabilise foodgrain prices which are already showing an upward trend. The maximum open market price of wheat per quintal has touched Rs. 340 in Maharashtra, Rs. 217 in Delhi, Rs. 185 in Bihar and Rs. 170 in Haryana. This partly explains why the traders and growers bypass normal channels to sell their produce.

Glass House Gossip

IF our Railway Minister had followed the example set by the late Lal Bahadur Shastri—he resigned after a railway accident, when he was the Railway Minister —he would have resigned a couple of months after taking over the railway portfolio. It is not my point that an accident should be a sufficient justification for a Minister to resign. What shocks one is the cynicism and callousness with which Ministers view the human suffering — and loss of lives— involved in these accidents. Never was the void between the ruler and the ruled wider than it is today.

Take the accident that happened to the Samastipur-Banmankhi train, on a bridge across the river Bagmati, on June 6. If I may quote from the reports appearing in newspapers, it is the worst disaster that has ever taken place on our Railways. As to the casualty figure, the newspaper which mentioned it as 200 on June 7, updated it to 2000, with the addition af a zero the next day. The Railways are not even sure as to how many people travelled by that ill-fated train. They have not cared to give even their guesstimates.

The Railway Board Chairman provides a bizarre touch of drama to the disaster by saying that the "train was lifted off the track like a toy and blown away into the river" while another official account says that the "train capsized and plunged from the bridge into the river when the driver applied the brakes suddenly to save a cow which had strayed on the track." Was it a case of one of those rare coincidences that just when the driver had applied the brakes, a cyclone also struck the area? Even school boy knows that a cyclone leaves a trail of destruction behind but those who visited the accident site testifies to the fact that there was hardly any evidence of cyclone havoc there. The trees and the thatched huts near the bridge did not seem to have borne the tell-tale signs of a gale. No sabotage can be suspected since the bridge and the track were in tact. It is also common knowledge that when the brakes are suddenly applied to a speeding train, the carriages which have acquired a momentum of their own, get a severe jolt. And, if the couplings are defective, there is a possibility of the carriages either capsizing or toppling to the side.

After reading about the 416-down accident in the North-Eastern Railway, I glanced at the printed brochure, *A Review of Accidents on Indian Government Railways, 1979-80* and found that most of the accidents that occured were due to "failure of Railway equipment". In 1979-80, for instance, 10,450 accidents came under this category, out of a total of 12,189 accidents. If anything, this underlines the need for (a) speeding up track renewal, (b) modernising signalling equipment and (c) the replacement of the old and worn-out rolling stock by new ones. The Railways also should pay greater attention to the inspection of the rolling stock and the tracks on a continuing basis and to regulating the working hours of drivers and guards with a view to reducing the fatigue element. One expected that the sacking of Mr. Kamalapati Tripathi and the shock-therapy given to the Railway Board would result in an improvement in the working of our Railways. If the increase in the number of train derailments and collisions that have taken place in the recent months is any indication, no such improvement has taken place even after Mr Kedar Pande became the Railway Minister.

□ □ □

The communal violence that erupted at Biharsharif near Patna — the place is some 45 miles from the state capital — should make every Indian hang his head in shame. I had said this on scores of occasions in the past; and I say it again. What started as a toddy shop brawl developed into a dispute over the use of the graveyards. By the time the hysteria died down, the communal clashes took a toll of some 50 people. There was also looting and arson on a large scale, engulfing as many as 22 villages. After Jamshedpur and Moradabad, this is perhaps the most serious communal carnage to have taken place after Mrs. Gandhi returned to power, in January 1980. It was good of the Prime Minister, who enjoys the reputation of being a true friend of the minorities, to have air-dashed to Biharsharif but, by then, the damage had been done.

Even so, her visit greatly helped to hasten the rescue and relief operations and to prevent an exodus from the troubled villages. It is a saving grace that quite a number of Hindus came forward to protect the Muslims during the Biharsharif riots. Considering that communal disturbances happen in this country, off and on, there is need for a tightening of the law and order machinery at the state level to effectively deal with such communal flare-ups. If the intelligence-system is streamlined, it should be possible to locate areas of possible trouble and prevent ugly incidents from happening. New Delhi should also consider the desirability of putting together an anti-riot squad, with its own aircraft, so that it can be flown to any trouble spot without much delay.

□ □ □

In these days when the dowry system and costly wedding rituals have nearly ruined many a Hindu family, there is a good deal to be said in favour of mass weddings — I mean the ritual part. Last month, in a holy place called Dharmasthala, 420 couples were united in wedlock, with the high priest of the place, Mr. Veerendra Heggade, financing and solemnising the ceremonies. Mass wedding, like mass production, is cost-saving. To the Dharmasthala temple authorities, it cost ouly Rs. 400 per couple. In all, the temple must have spent a couple of lakhs on the affair. The young couples were happy for another reason: Their weddings were solemnised in a place which is considered very sacred by people in that part of Karnataka.

Holy places do not hold any special attraction to me but, given an opportunity, I would like to visit Dharmasthala if only to see for myself the manner in which the high priest, Mr. Heggade, dispenses justice to those who seek it. From what I hear, Dharmasthala constitutes a mini Supreme Court where the devotees get their disputes settled through the arbitration of the high priest. The defendant and the plaintiff tell their respective stories and the verdict, which is binding on both sides, is given without much loss of time. I hope I am not committing any contempt of court by saying that if only we had another ten or twenty Dharmasthalas all over the country the law courts will be out of work. The emphasis here is on *dharma*—a sense of fairness—and where parties to a dispute are guided by the concept of *dharma*, they can settle their differences without resorting to costly— and often mutually ruinous— litigation.

People like Veerendra Heggade are hard to come by. Mr. Heggade (he does not have prefixes like His Holiness, Bhagawan and so on) is doing a great service to the country by initiating social reforms like the eradication of casteism and the dowry system. Incidentally, the majority of the people who were married off at last month's mass wedding were Harijans, Billavas and Poojaris— all from the lower rungs of our society. Unlike most high priests of temples and "mutts" who sport flowing beards and saffron robes, Mr. Heggade is clean-shaven and wears ordinary dress— a *kurta* and *dhoti*. An educated young man, Mr. Heggade is not over-awed by obscuranist ideas. In his own unassuming way, he has kindled a silent revolution.

□ □ □

When I wrote on the dispute that Bangladesh had raised over New Moore Island (see *Gossip*, June 1) little did I realise that I would soon be overtaken by events. True, President Zia-ur-Rahman was trying to adopt a hawkish posture on some issues but there were no two opinions over the fact that he gave to Bangladesh what it badly needed—stability. His assassination, like the assassination of Mujib some six years ago, has introduced an element of political uncertainty in this unfortunate country. The attempted coup did not quite come off. The plotter, Maji Gen. Manzur, has been shot dead and most army officers who plotted with him have been captured.

I am not quite sure whether any foreign powers had a hand in this aborted coup but I do not rule out such a possibility. This much is certain: The Chittagong–based group which killed President Zia in cold blood was rabidly anti-Indian. It will be many weeks before the successor to Zia gets a firm hold on the events. The home-coming of Mujib's daughter Hasina Wazed, and her election as President of the Awami League have electrified the political atmosphere in Dacca. India is wary of violent happenings in Bangladesh for the simple reason that such happenings inevitably result in an exodus of the Bangladesh people towards India. This explains why New Delhi is seriously thinking of tightening the border vigil. There is even talk of fencing the Indo–Bangla border.

□ □ □

I reproduce here a news item which I culled out from a Bombay daily:

> A Catholic priest in Nicaragua refused to baptise a baby boy because his mother wanted to name him Lenin, the angry mother said on Saturday. In open letters to Managua newspapers, Mercedes Rodriguez de Picado, a peasant woman from the northern province of Matagalpa, said the Rev. Lisimaco Vilchez had refused to baptise her infant son. Mrs. Rodriguez said she wanted to name the baby Lenin, but the priest told her: "That man was a communist, a bad man. Pick another name so I can baptise the baby". The woman said she bundled up her baby and walked out of the church in search of "a more understanding priest".

The priest's refusal to baptise the Nicaraguan baby simply because the suggested name—Lenin—was not to his liking sounds to me as outrageous. Evidently, the priest had no sense of history. If he had known something about the founder of the first communist state in the world, he would not have refused to baptise the baby. I do not subscribe to communism but I do not share the view of the priest that because Lenin was a communist, he was a bad man.

— Plebeian

Public Sector Enterprises : An Assessment of Performance

By **Mohd. Fazal** *

Public sector enterprises are often subjected to the criticism that they are not managed with the necessary degree of efficiency and that their profitability compares rather unfavourably with that of the private sector. But the question arises : what is the yardstick to measure the success of public sector firms ? How to judge their profitability in the light of their multidimensional goals? In this article, Mr. Mohammed Fazal, member of the Planning Commission, tries to answer these questions.

DURING the three decades since independence, the growth of public sector enterprises has been enermous—both in terms of investments and scope of activity. The investment in the public sector by way of equity capital plus loans has risen from Rs. 29 crores at the commencement of the First Five-Year Plan in 1951 to nearly Rs. 18,000 crores. The activities of the public sector are, today, spread over a wide spectrum of core sector and strategic industries including more than 35 per cent contribution to exports.

The principal 'objectives' of public enterprises are to promote economic development and growth ; to promote self-reliance in strategic sectors and diversify the economy ; to prevent concentration of economic power ; to reduce regional and social imbalances; to effect equitable distribution of income through social overhead capital ; adopting proper employment policy and other measures ; to generate surpluses for re-investment. It may be examined what has been the outcome of these objectives. Apart from socialising the means of production, the public sector enterprises have generated direct employment for nearly 21 lakh persons whose annual average emoluments per person are over Rs. 11,000 ; excluding millions of jobs created in other sectors which depend on a very wide range of matefial inputs produced by the public sector.

These enterprises have generated fixed assets which after depreciation were worth more than approx. Rs. 12,500 crores, at book value, and their annual turn over was more than Rs, 22,000 crores, by March 1980. The ratio of net fixed assets to sales at 1 : 1 : 7 is a good index of capital utilisation considering that these enterprises are engaged in core industries which are highly capital intensive.

The turnover of these enterprises during the last decade (1968–1979) has registered a compound growth rate of 23 per cent compared to the annual compound growth rate of the country's gross national product of 10.4 per cent

The public enterprises have played a big role in diversifying the Indian economy. Its range of activity today extends to some of the most sophisticated industries. It also operates in many service industries. A wide range of skills have been developed as a result. The extent to which the economy is able to meet its requirements of these diversified range of products is an indication of the development of skills and the self-reliance that have been achieved. Industries like steel, aluminium, non-ferrous metals, fertilizers, heavy engineering etc. have helped the country to save substantially on imports and create the base for industrial and economic self-reliance of the country.

The commanding position the public sector occupies today can be seen from the substantial share of production generated by the public enterprises in important raw materials and basic goods. The percentage share of production of the public sector in various areas of the national economy are: 100 per cent in hydro turbine, ship–building production, newsprint, ammonia sulphatic nitrate fertilizers ; steam turbine, telephone equipment, 'X' Ray films and teleprinter equipment ; 96 per cent in coal, 98 per cent in copper ore, 85 per cent in steel and 50 per cent in nitrogenous fertilizers.

Owing to historic and other reasons such as resource endowment, the economic development of the country was not even before independence. The public enterprises have striven to redress the economic and social inequalities that were caused by these factors. Its contribution in reducing regional imbalances in the country has been phenomenal.

While the minimum pay of an employee in the public sector has increased several fold in the last 3 decades, the maximum pay of the highest paid employee has been 'pegged' consciously to narrow down the gap between the highest and the lowest paid. The public sector has an implicit and often an explicit obligation to set standards in its dealings with its employees. This requires the enterprises to provide housing, health, education and recreational facilities which are generally much above the national standards. The public sector has also recognised the importance of giving greater recognition to workers in the management of their companies. Workers' participation at the shop floor and plant level has been accepted as a part of the objectives of a model employer by the public sector. Measures are in hand to intensify workers' participation at the highest managerial levels.

---

* Mr. Fazal is Member, Planning Commission.

In a mixed economy, where public and private enterprises operate and co-exist, the temptation to judge the public enterprises performance by the private enterprise criteria of net 'profits' in a narrow commercial sense, is indeed misleading. Public sector enterprises have multi-dimensional goals, one of which is that these enterprises usually undertake activities which are not privately remunerative, and yet economically and socially of considerable importance. Enterprises which are set up by the public sector would not have been set up if the criteria of only maximising profits was adopted. If the whole process of industrialisation in India was left to the private sector, India would not have achieved the stride in economic development, in the development of high technological base of the country's economy, in effecting import substitution in raising the country's managerial and technical manpower to the level which the country has been able to raise.

There is a great deal of qualitative difference between 'profits' of a public enterprise and the 'profits' of a private enterprise. And yet comparisons continue to be made between profits made by private enterprises, engaged in software consumer-oriented industries, with the profits made by the public enterprises which are in a completely different kind of operation altogether. An analysis of the performance during the period 1968-69 to 1978-79 indicates that the public sector enterprises had, in fact, earned a gross profit of Rs. 9,013 crores including provision of depreciation. Over the years, the percentage of gross margin of puplic sector to capital employed has increased from 7.5 per cent in 1968-69 to 12.5 per cent in 1978-79. These gross margins have been the resources generated by the public sector for the overall development of the economy.

In the public mind, there is an erroneous impression that the performance of public enterprises in terms of financial result has been grossly inadequate when compared to the performance of private enterprises. This comparison is often done on wrong basis. For example, the return of the private sector enterprises calculated on the basis of gross profits to capital employed is around 11 per cent. The term 'capital employed' includes all assets, fixed assets as well as current assets which is higher than the figure of 'capital employed' used in the Bureau of public Enterprises data where current liabilities are taken out from current assets. Thus, the profitability ratio of approximately 11 per cent shown by the private enterprises in respect of large companies employing over Rs. 1 crore capital, used in Reserve Bank of India and *Economic Times* data, is often an under-estimation of the real profitability index.

But if it is considered that over 70 per cent of the goods and services sold by the public enterprises are subjected to administered prices and if the multi-dimensional goals of the public enterprises are taken into account, and also the fact that public sector operates in the core sectors of the economy, then a return of 10 per cent on the capital employed, which was the achievement of the public enterprises in 1978-79 (excluding the coal enterprises) would appear to be satisfactory. The immense requirements of our development have necessitated a re-orientation in our approach towards public sector in many ways. Firstly, while the achievement of non-financial objectives will continue to be important, these enterprises will have to generate greater resources for the financing of economic development.

A major managerial revolution has taken place in the public enterprises, although rather quietly. It is not often realised that the managerial group in the public enterprises under the Central Government is today more than one lakh. This is roughly three times the size of the managerial group in the All India and Central Services. Unlike the latter, managerial group in the public enterprises was a new breed, the seeds of which were sown in the post-independence era. On the other hand, the size and quantity alone do not always speak for themselves. The test of managerial revolution which the public enterprises have brought about in our country is the extent to which they have been able to carry out the much-needed managerial reform and managerial reconstruction of the entire bureaucracy, of which public sector is a sub-system. There is no doubt that India's public enterprises have thrown up some of the managers of the highest quality in the country.

The considerable concern and anxiety in the past at different levels in the Government, and outside the Government has been responsible to a great deal of erosion of confidence within the management of public sector. It does, however, generate some confidence that the position is being changed. Instruments of policy are to be introduced which while making public sector answerable for its performance, leaves it at the same time considerable freedom to set its own rules of operation. The details of its working are not questioned from time to time at different forums, whether they be in the Government or outside.

By a set of instruments of instructions, the Government could lay down for a particular company the policy framework under which the company will have to operate and the yearly performance, profits, etc. which each company will have to show. Within these boundaries, the public sector needs to be allowed a free hand. In fact, such is the situation obtaining in regard to some of the oldest public enterprises in Germany, France, Italy, etc., where these enterprises are making considerable contribution to providing many manufactures and services for which they were set up, and also, contribute significantly to the augmentation of the national economy. India is faced with a new challenge of expansion and growth in its economic development, so that poverty is removed in the near future. In this task, public sector has to play a great and constructive role.

1981 Census Findings Point to New Directions in Population Policy

By **P. Padmanabha** *

With a population of 68.4 crores, India's is the second largest population in the world. But the country accounts for only 2.4 per cent of the total world area. The bigger states in India also account for higher population growth rates during the 70s. This calls for a deeper look into the various contributing factors and demands separate policy prescriptions. Policy measures will have to be directed towards region-specific trends and not towards national averages. As time is our scarcest resource, fertility reduction component has to be built into almost every governmental programme or activity.

THE provisional population of India as recorded at the 1981 census is 683,810,051. This population includes the projected population in the case of Assam and Jammu and Kashmir. In Assam State, the Census could not unfortunately be carried out, while in the case of Jammu & Kashmir it was proposed to be carried out in late April 1981 due to weather conditions. The provisional figures provide sufficient data for a discussion of a few important features of the population of the country, in particular its growth rates, density, sex ratio and literacy.

India is among the four largest countries of the world and it is only China, with 957 million that has a larger population. The USSR and USA are the other two countries with large populations and these four countries together account for nearly half the population of the globe. While India's population is the second largest in the world, or 15 per cent of the world's population, the country accounts for only 2.4 per cent of the total world area.

The population of the country has steadily increased from 1901. It was 23,83,96,327 in 1901. Ten year later the count was up by about 1.37 crores. The 1921 census showed a slight decline—the only time in this century. The decadal growth rate started crossing the double digits from 1931 onwards. Nearly 2.77 crore people were added during the decade 1921-31. In the next decade, the population touched 31,86,60,580, an addition of over 3.96 crores.

In the post-independence census of 1951, which preceded the first General Elections in 1952, the population crossed 36.10 crores. The percentage growth rate of the decade was still in its teens, 13.31 per cent increase to be exact. Over the 1901 figures, this represented a 51.47 per cent increase. Thereafter, there has been an unprecedented acceleration in growth rate. By 1961, the country had added more than 7.7 crores of people. The percentage-wise growth recorded a rise of 21.51. In 1971, the addition to population registered was about 10.90 crores, a 24.80 per cent decadal growth. The latest census has shown an addition of 13.60 crores (136 million) over the 1951 figures, it was more than a double jump. During these eight decades of the 20th century, the growth is of the order of 186 per cent over the 1901 data.

A comparison with the population of 1971 would indicate that the growth rates have been of a fairly high order except in a few cases. The all-India growth rate itself is almost equal to that in the decade 1961-71. In almost all the States and Union Territories the additions in numbers between 1971 and 1981 are higher than that between 1961 and 1971. It is only in the States of Kerala, Orissa, Tamil Nadu and in the Union Territory of Goa, Daman & Diu that the absolute numbers and growth rate increases in the last decade is lower than in the decade 1961-71.

The implications of the population growth are important since they enter into almost all calculations of indices of quality of life, whether it be food supply, education, housing, medical and health facilities. If one were to consider the growth rates in a little more detail, it will be noticed that the States and Union Territories that have experienced growth rates in the decade 1971-81 faster than in the decade 1961-71 are Andhra Pradesh, Assam, Bihar, Karnataka, Nagaland, Punjab, Rajasthan, Sikkim, Uttar Pradesh, Dadra & Nagar Haveli, Mizoram and Pondicherry. The other States and Union Territories have all experienced a slowing down of growth rate.

Among the States and Union Territories eleven have had an accelerated rate of growth over the the last decade. These would include certain States such as Nagaland, Sikkim and Union Territories such as Andaman & Nicobar Islands, Dadra & Nagar Haveli, Mizoram and Pondicherry, where the comparatively larger variations of growth rate can partly by attributed to migration which calls for separate policy prescriptions. The provisional results would indicate that there is a need for a more detailed consideration of the situation in the bigger States of Andhra Pradesh, Bihar, Karnataka, Rajasthan and Uttar Pradesh.

The sex ratio is of some interest. The sex ratio is defined as the number of females per thousand males. The number of females per thousand males has generally been less than thousand, that is, adverse to the females. Noticeably, the ratio has tended to deteriorate over the decades. For the first time in 1981, it would seem that the tendency for the sex ratio to deteriorate has been halted and that, in fact, there has been a slight improvement. Without going into technicalities, the improvement in the sex ratio is supported by the assumption made by the Expert Committee on Population Projections with regard to expectation of life at birth of females improving over the years. One of the conclusions that one could at this initial stage come to is that probably, maternal and child care programmes are yielding dividends. Kerala is the only State where the sex ratio is in favour of females, with 1034 females per thousand males. Policy measures will have to be directed towards region-specific trends and not towards national averages. As time is our scarcest resource, fertility reduction component has to be built into almost every governmental programme or activity.

---

*Mr. Padmanabha is Registrar General and Census Commissioner, Govt. of India.

The literacy rates in the country have certainly improved over the decades but there is a clear differential between the rates among males and females with the latter falling behind male literacy rates almost continuously. While one can derive some satisfaction from the improvement in the literacy rates, it is important to note that even though the number of literates has increased by about 8.20 crores over the decade 1971–81, we have continuously added to the stock of illiterates in sheer numbers. In 1971, as against 15.64 crore literates there were 37.21 crore illiterates. In 1981, the literates had risen to 23.80 crores; so also the illiterates to 42 crores. An addition of 4.80 crores to the illiterates stock. It would mean that there has to be an enhanced activity in not merely formal schooling systems but also in the adult literacy programmes. Female literacy is of particular importance in the context of programmes of family planning and health care.

It is interesting to notice that till the 1920s, female literacy was considerably below male literacy with a ratio of nearly 1:10 in favour of males. Thereafter, there has been a clear improvement in female literacy. By 1971, the ratio has become 1:2. In 1981, the position is only slightly better. This disparity would call attention to the need for strengthening specific programmes for improving the literacy of women. While there is general improvement in literacy, the fact remains that nearly half of the males and nearly 75 per cent of the females in the country are still illiterate. If one were to take the total population into consideration, nearly 64 per cent are still illiterate.

If one ignores Chandigarh for obvious reasons, Kerala has a pre-eminent position with regard to literacy. If States are arranged by ranges of female literacy, it would be seen that the States which have the highest growth rate in population are almost exactly the same as those which have low female literacy. In particular, this is so in the case of West Bengal, Karnataka, Haryana, Orissa, Andhra Pradesh, Madhya Pradesh, Uttar Pradesh, Bihar and Rajasthan.

The rural-urban distribution of population will be available a little later. However, the information regarding those cities which have a population of 10 lakhs and above have been provisionally totalled. As against nine such cities in 1971, there are now 12. These cities with the provisional population are: Calcutta (91,65,650); Greater Bombay (82,02,759); Delhi (52,27,730); Madras (47,62,635); Bangalore (29,13,537); Hyderabad (25,65,536); Ahmedabad (25,15,195); Kanpur (16,85,308); Pune (16,85,266); Nagpur (12,97,977); Lucknow (10,06,843); and Jaipur (10,04,669) (all urban areas of these cities). The cities which have now crossed 10 lakhs after the 1971 Census are Nagpur, Lucknow and Jaipur.

The provisional results of the 1981 census indicate that there has not been any significant slowing down of the rate of growth. This calls for a detailed consideration of the implications of these results in relation to various aspects of population policy, with particular reference to family planning. In a country like ours where growth rates vary so widely from State to State and region to region it would seem more appropriate to consider the issues involved on the basis of larger States or those that have the largest demographic impact. A superficial consideration of national averages would not be appropriate in considering basic issues relating to the factors that tend to support high growth rates and one would have to consider growth rates in relation to broad regions and the bigger States.

Based on the Census data and taking into consideration the assumption of the Expert Committee and keeping in view other data sources, it is possible to categorise the major States on the basis of birth rates and death rates. Such an assessment would indicate that Bihar and Uttar Pradesh are the areas of maximum concern since these States would appear to have both birth rates and death rates of a high order. These States are closely followed by Madhya Pradesh, West Bengal and Rajasthan. In all these States improvement in health conditions will result in an increase in population and, therefore, it would imply that fertility control measures would have to be of a very high level, if growth rates have to be consciously reduced. The States of Gujarat, Haryana, Andhra Pradesh and Karnataka would appear to be areas where death rates are of a reasonable order but birth rates continue to be high.

In the States of Orissa, Punjab and Tamil Nadu, the birth rates are reasonable but death rates are rather high which would imply that if health conditions improve, there would be an increase in population. Therefore, at this stage it could be said that family planning measures in these States would have to be fairly intensive. It is only in Kerala and Maharashtra that maintenence of current levels of family planning would seem sufficient since these States have low birth and death rates.

The provisional Census results indicate very clearly that there has been almost no deceleration in the growth of population. Since death rates in certain areas may fall due to health measures, this, in conjunction with high birth rate, would further lead to an increase in population. Without entering into the debate on correlations between economic and social measures with levels of fertility, there would appear to be a strong correlation between female literacy and fertility levels. Such correlations would strengthen the view that long term measures relating to female literacy would yield dividends.

India's Exports: New Imperatives

By THE EDITOR

IT may be said, not without a tinge of sarcasm, that one of the few areas where the planners are expected to over-shoot the mark in the very first year of the Sixth Plan is in the balance of trade deficit. Against the expected trade gap of a little less than Rs. 4,000 crores by 1984-85, the country's trade deficit in 1980-81 itself may well exceed Rs. 5,000 crores. This renders the planners' projections of exports (9,878 crores) and imports (13,850 crores) by 1984-85 somewhat unreal but it need not warrant a reappraisal, so soon after the publication of the plan document. There are still four more years to go and, if the global recession yields place to a recovery phase, if domestic production grows at an average rate of at least 8 per cent, and if the real price of crude oil does not increase as sharply as it did in the late seventies, India should be able to bring the trade deficit back to around Rs. 4,000 crores, as projected in the Sixth Plan.

The key to the entire problem (of the trade gap) lies with just three import items, namely, petroleum (crude and refined), chemical fertilisers and edible oils, in that order. Since it is possible, in theory at any rate, to reduce the import of these three items, one can also envisage, under certain favourable configuration of circumstances, the trade gap in the concluding year of the plan to be lower than the figure projected by the planners. The country had witnessed impressive export growth rates of 20 to 30 per cent in the early seventies and there is no reason—OPEC notwithstanding—why India cannot achieve similar rates of growth in the early eighties. But if past experience is any guide, India is not quite as good at turning a challenge into an advantage as she is at capitalising on a world commodity boom.

Besides, India, like other populous and geographically large countries of the world, does not have to cling to exports as its life-line. Exports form a small percentage of the country's G.N.P. Occasional talk of an "export-led growth" notwithstanding, exporting activity remains residual in the sense that we export because we have to pay for our imports. Probably, this is the case with most countries where the home market exercises a kind of pre-emptive right over what is produced. Since, in a country like India, exports are not crucial to the nation's economic survival, as they are to, say, Japan or West Germany, it is understandable that the export sector does not show the same dynamism that it displays in the countries where export is a matter of bread and butter. The phenomenon can be explained thus: larger the trade gap, greater is the export effort and *vice versa.* If this is *ad hoc* ism, may be, it cannot be helped. But the country has reached a stage when exports can be, with advantage, given due prominence in the total economic activity.

Without going into the basics, one can say that India produces a lot of things which may be surplus to her needs—tea, tobacco, spices, marine products, iron ore, cotton piecegoods and so on. It makes a pretty long list. At this stage in the country's development, the purchasing power constraint also helps to throw up an exportable surplus but that, again, is not the point at issue. The important point to

CONTENTS

India's Exports: New Imperatives
— *By The Editor*

India's Foreign Trade: Need for New Strategy
— *H. Lajipathi Rai* and *M. K. Ganju*

Present Status of Exports in Indian Economy
— *K. Rajalakshmi*

Protectionism in International Business and India's Export Promotion Policy
— *S. A. Anwar*

Dimensions of our Foreign Exchange Earnings
— *K. Ramachandran Nair*

Recent Trends in India's Foreign Trade: An Official Review

Working of Public Sector Firms Engaged in Foreign Trade — A Review

note is that it is not enough to have things which are "surplus" to our requirements; we should be in a position to produce these things at a cost which is comparable to the best produced anywhere in the world. If we are inefficient producers, we have to export it at below the cost, the difference being borne by the tax payer. It is not good economics. It does not require any special effort to export more coffee in an year when production in Brazil, for instance, is affected by forst. We can triple or quadruple our earnings from the sale of sugar when something happens in Cuba, causing a fall in sugar production there.

The high rates of export witnessed during some years in the early seventies can be partly explained by such fortuitous circumstances. While conceding that the level of our exports depends, to some extent, on external factors over which we have no control, what provides ballast to our export effort is the productive efficiency of our industries as well as the state of our agriculture. In an year when industrial production shows meagre or negative growth rate, the volume of exports also declines unless the shortfall is made good by larger exports of commodities like tea, coffee, jute, cotton, minerals and so on. Therefore, it can be said that an overall improvement in the productivity of our industries is the *sine qua non* of any successful export drive. It is so, for two reasons, namely, (a) an improvement in industrial production makes it easy for setting aside sizable quantities for export and (b) increased productivity makes it easy for our exporters to compete in the markets abroad.

Such a strategy, based on long-term consideration, eschews *ad-hoc*-ism—particularly any export drive based on (a) forcing a surplus from out of domestic production and (b) props provided by direct or concealed subsidies. Neither the plan document nor the export policy statements made by the Commerce Minister seem to have been based on these larger considerations. India, which is among the 10 most industrialised nations of the world, can enormously improve on her export performance. What is needed is a coordinated and sustained effort which will be forthcoming only if New Delhi shows a keen awareness of the new imperatives and formulates a dynamic export policy. Such a policy should look beyond the simple task of closing the trade gap caused by extraneous factors like the high price of oil. It should size up the export potential of the country and provide the means by which this potential can be exploited to the full.

This calls for, among other things, a strengthening of the export infrastructure. In particular, there is need for modernising our major ports and an improvement of the shipping facilities keeping in view the latest trends in containerisation. In the field of export finance, the Export Credit and Guarantee Corporation is already playing a very useful role not only by providing guarantees to the banks against export credit but also insuring exporters against the risk of non-payment by the importers. Our exporters can expect a larger measure of support when the proposed Export-Import Bank is set up with a view to providing export finance in a big way.

Lack of quality-consciousness among many of our exporters remains another stumbling block in the way of increasing the country's exporters. Here, one has to make a distinction between recession-induced resistance among importers (e.g. the furore raised by American importers of Indian sea foods) and genuine complaints about the indifferent quality of the goods we export. One may hope that these problems can be taken care of, by the Export Inspection Agencies which are functioning at the major ports in the country.

In terms of organisation, India is better organised than most developing countries. Export Promotion Councils have been set up to keep a close watch on the performance of major export items. In addition, there are commodity boards like the Coffee Board, the Rubber Board and the Tea Board, whose functions cover exports also. Furthermore, a good percentage of the country's foreign trade is looked after by public sector corporations like STC, MMTC, and the subsidiaries which they have spawned during the past decades. There are then the Trade Development Authority and the Trade Fair Authority which play a not-too-insignificant role in catalysing the country's exports. There are, then, the Free, Trade Zones — the Kandla Free Trade Zone and the Santa Cruz Electronics Export Processing Zone — to provide duty-free facilities for the processing of goods meant for export.

What is needed today, therefore, is not the creation of more institutions to give a fillip to the export effort but to ensure better coordination among the existing organisations in order to get positive results. If one ignores the year-to-year swings, one can say that the commodity-wise pattern of exports has undergone a structural transformation, over the decades, with the export of manufactured goods —particularly engineering goods—recording a spectacular growth. But the momentum of the earlier decades is not likely to be maintained in the 80's unless special efforts are made to improve the export performance in the area of non-traditional items. Since it is not possible to segregate export production for the domestic market, for the purpose of giving special incentive it is desirable to aim at an overall improvement in production through fiscal reliefs, better supply of inputs, removal of infrastructure hurdles and so on. The export policy announced by the Government a few months ago seeks to achieve some of these goals. The measures adopted in pursuance of this policy include :

1. Exclusion of production for export for the purpose of "licensed capacity" and "dominance".

2. Permission to allow production of new articles for export where there is a variation of articles.

3. Favourable treatment to technology imports for export production which involved lumpsum payment of royalty.

4. Free trade zone like-treatment to all 100 per cent export-oriented units.

5. To allow automatic expansion to an expanded list of industries for the purpose of increasing production for exports.

6. Selective relaxation in restrictions imposed on new industrial undertakings in metropolitan cities to such units which produce for exports.

7. Pre-shipment credit at a concessional rate of interest of 11.85 per cent to a number of engineering and other export-oriented industries for a period of 180 days.

In addition to these measures, the Union Budget, 1981-82, has also provided fiscal support for export promotion, as follows :

1. 14 groups of export-oriented industries have been brought within the purview of industries to which investment allowance or tax holiday is admissible.

2. Export oriented industries in the free trade zones have been allowed complete tax holiday for an initial period of five years, in lieu of other fiscal concessions.

3. The scope of activities under Section 35B of the Income-Tax Act which allows weighted deduction the computation of the taxable profits is being widened.

4. In the case of electronics which is both a labour-intensive and export-oriented industry, dividend derived by domestic company from an Indian company, engaged exclusively in the manufacture of electronics components, is completely exempt from income-tax.

The geographical position in which India is placed gives the country a special advantages in improving her trade with countries of the Middle East, Africa and to some extent, South East Asia. As the share of our major trading partners — U. S. A. U.K., U.S.S.R. and Japan — has shown a decline, the share of West European countries and the Arab countries has shown an improvement. In addition to direct exports to the Third World countries in Africa, Middle East and Asia, India can, with advantage, boost her exports by taking up turn-key contracts for building projects—Railways, irrigation and power projects, factories etc— in the countries of these regions. India has already established her "presence" in these countries but by avoiding past mistakes, she can improve her earnings from project exports. If, in the past, our foreign trade policy did not meet with spectacular success, it was because we often pursued mutually contradictory goals. This is nowhere more evident than in our indiscriminate pursuit of import substitution and subsidised exports. Both cover up our inefficiency and both render industries less competitive abroad. India has reached a stage when she can afford to let in a whiff of fresh air, that is to say, allow a trickle of foreign goods to compete with products manufactured at home. That helps us to know where we really stand.

SOME POSSIBILITIES FOR EXPANDING EXPORTS OF LDCs

The industrialized countries' market for finished manufactures offers developing countries the biggest scope for expanding exports. But they have opportunities for raising exports in other areas as well. Primary producers face more serious export constraints than countries exporting manufactures. For many of them, processing their primary products offers a way of increasing the value of export earnings. For some primary products, the potential gains from increased processing can be exaggerated: some stages of processing certain commodities (for example, nickel and bauxite) are highly capital or energy-intensive; others (for example, some edible oils) can cost less to transport in their unprocessed form. This does not necessarily mean that such processing activities are unsuitable for a developing country, but in these cases, a more careful evaluation of the costs and benefits is required.

The decision to do more processing, however, is seldom in the hands of developing countries alone. The tariff structures of industrialized countries typically impose low (or no) duties for unprocessed primary products; but in many cases, these rise progressively with the degree of processing (often to high levels). Unfortunately, this protects advanced stages of processing in the importing countries and inhibits exports of processed products from developing countries.

Recent growth in "south-south" trade has been robust, and the outlook is promising. Developing countries' exports of both manufactures and non-fuel primary products to each other have been growing faster than they have to industrialized countries. UN data show that trade between developing countries accounted for barely more than a quarter of the increase in their manufactured exports during 1963-73, but almost half in 1973-77. Most of such trade in manufactures is from more industrialised to less-industrialized developing countries, or between adjacent countries that are not otherwise major exporters of manufactures. — From *World Development Report, 1980.*

Government of India
(Ministry of Works and Housing)
Department of Publications
Civil Lines, Delhi-110054

LIST OF NEW ARRIVALS - APRIL 1981

S. No.	Title	Price
1.	Public Enterprises Survey 1979-80 Vol. I. (Print 1981). PFD. 197.80 (I) (E)	Rs. 91.25
2.	Bulletin on Commercial Crops Statistics 1976-77 to 1978-79. (Print 1981). PDES. 203 (1976-79)	Rs. 67.85
3.	Directory of Testing Facilities in India 1980. (Print 1981). PN CST. 27 (Combined Volume).	Rs. 45.00
4.	Civil List of the Indian Forest Service as on the Ist January 1980. (Print 1981). PDP. 18 80	Rs. 60.50
5.	Records of the Geological Survey of India-Volume 112. Part 6. (Print 1980). PGSI. 117	Rs. 13.65
6.	Combined Finance and Revenue Accounts of the Union and State Governments in India for the year 1976-77. (Print 1981). PAG. 13.77	Rs. 25.00
7.	Rashtriya Panchang. Saka Era 1903 (1981-82 A.D.).	
	(i) Hindi Version. (Print 1981). PDGO. 70. 1903	Rs. 2.00
	(ii) English Version. (Print 1981) PDGO. 70. 1903	Rs. 2.00
8.	Report of the Committee to Review the Working of LIC (September 1980). (Print 1981). PSI. 7	Rs. 51.50
9.	Report of the Commissioner for Scheduled Caste and Scheduled Tribes (Twenty sixth Report) 1978-79 Part I. (Print 1980). PHD. 66.78-79 (I).	Rs. 20.00
10.	Report of the Commissioner for Scheduled Caste and Scheduled Tribes (Twenty Sixth Report) 1978-79 Part II. (Appendices (Print 1980). PHD. 66. 78-79. (II).	Rs. 12.00
11.	* Recommendations of the Tribunals for Working Journalists and Non-Journalists News Paper Employees (12th August 1980). (Print 1981). PDL. 509.	Rs. 11.50
12.	Census of India 1971. Series 3. Assam. PT-II-B. Economics Tables. (Print 1978). PRG. 4.71 (Assam) (N).	Rs. 16.90
13.	लोक उदयम सर्वेक्षण 1979-80 खण्ड-I (प्रिन्ट 1981) PFD. 178.79-80 (I) (H)	Rs. 91.25
14.	समुदाय-स्वास्थ्य प्रथम खण्ड, सांख्यिकी (प्रिन्ट 1981) PFD. 488.	Rs. 33.70
15.	निर्यात नीति अप्रैल 1981-मार्च 1982 (प्रिन्ट 1981) PCCIE. 4. 81-82	Rs. 15.00
16.	दिल्ली के स्वतंत्रता-सेनानी (सक्षिप्त परिचय) भाग-I (प्रिन्ट 1979) PSD. 2B.	Rs. 40.00
17.	Monthly Abstract of Statistics.	Rs. 25.00 per copy. Annual Subscription Rs. 300/-

(*) These publications are not yet released for sale for want of instructions from the Sponsoring Departments.

For all your requirements of Government Publications released by various Ministries/Departments of the Government of India, the Periodicals and Gazette of India (all Parts) Please contact any of our sales Depot/counters or book your orders and address enquiries to the undersigned.

	Address	Tel. No.
i)	Kitab Mahal, Baba Kharak Singh Marg, State Emporia Unit No. 21. New Delhi.	Tel. No. 343708
ii)	Book Depot, 8 K.S. Roy Road, Calcutta.	Tel. No. 233813
iii)	Sales Counter Udyog Bhavan, Gate No. 13, New Delhi	Tel. No. 372082
iv)	Sale Counter, U.P.S.C. Dholpur House, New Delhi.	Tel. No. 83991
v)	Sale Counter Headquarters, Civil Lines, Delhi-110054	Tel. No. 227821-25 227800.

These Publications can also be had from our authorised agents and sale and Return Agents (including State Governments) all over the country and abroad.

AMRIK SINGH
Controller of Publications

davp 81/84

India's Foreign Trade: Need for New Strategy

By H. LAJIPATHI RAI and M. K. GANJU *

THE situation prevailing at present in India leaves no doubt about the state of the economy. The lower level of agricultural and industrial production has added to the difficulties experienced in conducting the India's foreign trade. With rising internal consumption, it has been necessary to fill the gaps with imports of steel, cement, fertilizers and non-ferrous metals.[1] Due to the large purchases of edible oils, the expenditure in foreign exchange has increased considerably. The rising cost of crude and petroleum products has further added to the import bill. According to provisional data, exports during 1979-80 amounted Rs. 5,999 crores, while imports during the same period amounted to Rs. 8,231 crores leaving a deficit of Rs. 2,232 crores as against a deficit of Rs. 1,088 crores in 1978-79.[2] It is apprehended that the trade gap may be even Rs. 4,000 crores in 1980-81.[3] The Union Finance Minister, Mr. R. Venkataraman, has observed that imports may be higher at Rs. 11,000 crores while serious efforts will have to be made for achieving even the modest target of Rs. 7,100 crores for exports.

INDIA'S FOREIGN TRADE

(Rs. crores)

Year	Exports +	Imports —	Balance of trade
1970-71	1535	1634	—99
1971-72	1608	1825	—217
1972-73	1971	1867	+104
1973-74	2523	2955	—432
1974-75	3329	4519	—1190
1975-76	4043	5265	—1222
1976-77	5146	5074	+ 72
1977-78	5404	6025	—621
1978-79 (P)	5726	6814	—1088
1979-80 (P)	5999	8231	—2232

(P) Provisional

Source : RBI Bulletin, April 1980 S 225.

The outlay on imports of crude and petroleum products may be around Rs. 5,500 crores, an increase of Rs. 500 crores over the previous estimate. This will further aggravate India's trade crisis. It is unrealistic to anticipate export booms for India during the criticals eighties.

After three successive years of deficit trade balance, a surplus of Rs. 72 crores was achieved during 1976-77. But it has been proved momentary because of the continued previous trend followed in the later years. This is largely due to the import of large volumes of oil and petroleum products. The future course of world petroleum prices is likely to maintain its strong upward momentum and could escalate at as high an annual rate as 15 per cent. And India will be requiring substantial quantities of imported crude oil and petroleum products throughout the foreseeable time horizon. Servicing these imports will constitute the single most important burden on our trading sector. In view of this the following suggestions need to be considered.

A reorganisation of the country's export trade on a more rational basis is needed to take advantage of the present trends in the world market.[3] Government would do well to take the private sector into confidence instead of burdening itself with more and more of export trade.

Export promotion measures should not be taken on an "emergency" or *ad hoc* basis as it is being done at present and the country's exports have to be handled in a different way.

Unhealthy competition among Indian firms operating in foreign markets and uncertain delivery schedules have been two unwholesome features of India's exports but for which export performance could have been even more satisfactory than what it has been so far.[4]

While framing the import policies, especially that of an underdeveloped country like India endowed with limited resources and a low capital base, the requirements need to be viewed in long-term perspective.

What needs to be done is to develop a viable and medium-term planning strategy to maximise the welfare of the masses, improve the conditions of the bottom 20 per cent of the population and optimise the use of Given resources for rapid growth.[5] Considering this, the import policy should be formulated with sufficient courage to face short-term problems, except for spending foreign exchange to buy food, oil and fertilisers.

High shipping freights, increased cost element of packing, increased cost of oil, electricity, gas, labour, etc. leading to increased production costs and loss of the competitive edge of our products in export market. Therefore, the need today is for a judicious export assistance to our exporters in the context of mounting competition.

Consideration of the economics of energy utilisation in real terms in every spehere of economic activity will need to figure more prominently in our planning process than ever before, for, that will influence the production costs of our exportables.

The end of the Seventies warrants a new look at our policy framework so that instead of seeking *ad hoc* remedies for problems, we must have a settled wellthought-out approach to deal with them. The time has come when an effort must be made at revamping our economic strategy in order to make it more responsive to the people's aspirations. At this juncture, our foreign trade sector needs special attention.

REFERENCES

1. Arvind Bhandari: "Exports in '80s: Moderate 10 per cent growth rate mooted", *Commerce:* May 31, 1980. p 931.

2, P.A. Seshan: "Economy can Rebound Despite Reverses", *The Hindu* Survey 'of Indian Industry' 1979, p 1.

3. Navin Chandra Joshi: "Reorganising the Export Trade: Need to Take the private Sector into Confidence", *Capital* 31st May, 1973, p. 857

4. Breakthrough in Engineering Exports', *Capital* 5th May, '77, p. 529

---

* Dr.H.Lajipathi Rai is Lecturer in the Post Graduate Dept. of Commerce, T. J. P. S. College, Guntur and Dr. M. K. Ganju is Reader in Commerce, Nagarjuna University.

Plan for his bright future

It's you who can shape your child's future. Save money regularly for him. He will soon need books, school fees etc. These expenses will increase as he goes for higher studies. Plan for his security and prosperity.

There are several attractive Saving Schemes for you.

★ MULTI-BENEFIT & OLD AGE DEPOSIT—
A deposit of Rs. 5,000 would fetch you almost, Rs. 10,000 after seven years.

★ SPECIAL FIXED DEPOSIT—
Earn an extra regular income - Deposit of Rs. 30,000 for 36 months will earn monthly interest of Rs. 247.92

★ RECURRING DEPOSIT—
Save in monthly instalments of Rs. 5 or its multiples and get a large amount at maturity.

★ MINI DEPOSIT—
Open an account with just Rs. 5 and keep it growing with as little as 50 paise. Collections are made regularly at your doorstep.

★ DEPOSIT LINKED HOUSING LOAN—
Deposit in monthly instalments. At maturity receive loan equal to 150% of maturity value or Rs. 50,000, whichever is less - to build or buy a house.

For further details please contact our nearest branch

punjab national bank
(A Government of India Undertaking)
...the name you can BANK upon !

Present Status of Exports in Indian Economy

By K. RAJALAKSHMI *

THE Indian Economy has shown impressive progress in agriculture, industry, science and technology and a wide range of infrastructural services during the period from 1951 to 1978. There is a tremendous increase in agricultural production due to changes in agricultural technology. Industrial production has expanded manifold during the above period. Except in the case of coal, the output of which has increased from 34.9 million tonnes to 106.8 million tones, all the remaining crucial items like power, fertilizers, iron and steel, cement petroleum products, basic metals and minerals, electrical and non-electrical machinery etc. has increased manifold. From a negligible share of 0 05 per cent of the GNP, expenditure on research and development has increased to 0.67 per cent in 1978 Stock of technical and scientific manpower has increased by more than twelve times in the above period. India now manufactures a wide range of capital and consumer goods thereby widening and strengthening the export base of our economy.

Priority to exports was accorded during the second five year plan when the country was passing through acute foreign exchange difficulties. Effective steps were taken to maximise export earnings which led to higher production and productivity levels. A higher level of exports also enables the country to finance the import of critical raw materials badly needed for fuller utilization of existing industrial capacities, import of technical know-how to keep up with the overall development in the world and import of essential mass consumption commodities. Development of exports gives fillip to such economic activites as transport, shipping, banking insurance etc. It also helps in stabilising the domestic prices in the agricultural sector by syphoning off excess supplies for export purposes. Moreover studies show that only those countries which have a good rate of growth in exports have a higher GNP.

In 1976-77 India's exports were of the tune of Rs. 4,981/-crores, an increase of 23 per cent over the previous year. Exports increased by 22.5 per cent in 1972-73, 28.0 per cent in 1973-74, 31.9 per cent in 1974-75, and 21.4 per cent in 1975-76. On the contrary there were only 1 per cent growth during the first plan period, 2 per cent during the second plan, and 4 per cent during the third plan. The share of exports in India's GNP increased from 4.2 in 1970-71 to 6 3 per cent in 1975-76. But the rising share of exports in the GNP and the increasing growth rates of exports do not reflect a correct and real picture of the actual export performance. The main reasons for this misguiding impression are due to factors like sudden massive rise in oil prices, soaring world inflation, international monetary crisis and rupee depreciation etc. Allowing for various elements from the nominal value of exports the real rates of growth of exports arrived at are 11.9 per cent from the apparent rate of 22.8 per cent in 1972-73, 26.7 per cent from 28 per cent in 1973-74, 17.3 per cent from 31.9 per cent in 1974-75, and 10 per cent from 21.4 per cent in 1975-76. The indices of the quantum of exports increased from 101 in 1971 (1970=100) to 123 in 1974 and 148 in 1976. In spite of significant rise in our exports, India's share in world trade is progressively declining as is evident from the Table 1.

Table-1

SHARE OF INDIAN EXPORTS IN WORLD EXPORTS

Year	Indian Exports $Million	World Exports $Million	India's Percentage
1958	1,222	108,600	1.13
1968	1,716	239,800	0.73
1978	6,415	1,283,000	0.50

Source: Midyear Economic review, *Economic Trends* (supplement) November 1980.

It is predicted that if the present rate of our export growth is allowed to continue, our share in global exports will become almost negligible by the end of 1990. The major cause of this decreasing share may be due to the fact that the global increase of export during the period is due to mineral oils and food grains where as India remains one of the major importers of these items. One the import front, with the recent oil crisis our outgo of foreign exchange for meeting oil imports has been showing a sharp upward trend. Table II clearly indicates the alarming picture of our expenditure on oil.

Table-2

EXPENDITURE ON PETROLEUM

Year	Money Value of Exports of Oil Rs. crores	% of Oil imports in Total Exports
1960	18	3
1970	106	7
1979-1980	3700	63
1980-1981*	5000	—

* Estimated Value.

It is estimated that in 1980-81, India will be required to spend about Rs. 5,000/- crores on petroleum imports. At this rate, it will not be long before the entire export proceeds are eaten away by the imports of petroleum alone. In addition, substantial imports of fertilizers as inputs for the agricultural sector, raw materials for enabling the industries to work to fuller capacity, mass consumption items like edible oils and cement have become very essential. The result of all this has been a steadily widening gap between exports and imports. The deficit in balance of trade increased from Rs. 621 crores in 1977-78 to Rs. 2262 crores in 1979-80. Although India's trade balance in the past had been adverse in most of the years. Its magnitude was somehow manageable—helped by foreign aid and, of late, by the inflow of remittances from Indians working abroad. But now, there seems to be an inevitable sharp erosion of our foreign exchange reserves resulting in a very difficult situation. This situation emphasises the urgent need for a sustained and vigorous export promotion drive.

---

* Dr. K. Rajalakshmi is an Economist in Indian Institute of Management, Bangalore.

We must at least try to maintain our share in the global trade at 0.5 to 0.6 per cent. Even to achieve this aim, we may have to raise the level of our exports by 12 per cent per annum, in otherwords to Rs. 20,000 crores by 1990-91. The frame work of the Sixth Plan has rightly attached high priority for export promotion activities. An average growth rate of 10 per cent per annum in volume terms is envisaged for the next five years.

Our export policy must help in meeting our exportable manufactured items competitive in the international market not only in prices but in various non-price aspects like technological excellence, delivery schedules, quality standards, packaging, mode of despatch etc. Restrictions which are relevance for domestic production should be freed for export production.

Since exports are mainly a function of production, our production process should be geared to achieve a breakthrough in our export efforts. Firstly, in order to augment industrial production, the economy should be pulled out of its present low productivity trap. At present the utilisation performance of a vast majority of industrial units is extremely unsatisfactory. Certain capital and intermediate goods industries are worst affected by under utilisation. For instance, it is 65 per cent in fertilizers and 50 per cent only in diesel engines in 1978 and in steel castings it is as low as 30 per cent in 1976. This low utilisation of installed capacity may be due to various reasons like insufficient power, coal, transport, funds, lockouts and strikes etc. Therefore it becomes very important to remove the production bottlenecks by increasing the availability of raw materials, essential inputs like fuel, power, transport, steel, liberal finance, long term wage policy etc. A thorough investigation of capacity utilisation is an urgent need.

Another major factor which hinders our export performance is the keen competitiveness in the international market. To remain competitive in the world market, it becomes necessary to choose the products in which we enjoy some comparative and natural advantage. For instance, labour-intensive products should be encouraged as opposed to capital–intensive manufactured products and also products in which easy and cheap raw materials are available. Promotion of uniquely Indian items like Indian handicrafts, apart from distinct export value, would help in providing employment in highly decentralised sector. State and central trading and export corporations must eliminate the difficulties faced by the skilled artisans by providing raw materials, finance, product developing and marketing facilities to them.

Another important factor which impedes the efficient running of our industrial enterprises and comes in the way of exports is the inadequate and less sophisticated technology. Technology which may be appropriate and adequate for our domestic needs may not be so for the export sector. Even developing countries these days prefer to buy the most technologically advanced products. Therefore, it becomes necessary that the gap in our technology in our export sector must be closed by importing advanced technology. Owing to the foreign exchange crisis India was unable to purchase advance technology from a world market dominated by major industrial powers and multinational corporations. The Government's decision to allow the exporters to import technology on more liberal terms than hitherto is a welcome step in this direction.

Another crucial point is to realise that export markets once lost will be difficult to regain. Therefore, atleast a small percentage of production should be made available for exports every year, imposing temporary restrictions, if necessary, on indigenous consumption. A list of items in which a part of production for export purpose may be spared, should be drawn so that we would be in the export market every year atleast to the extent of a certain minimum quantity. This principle will help considerably in building credibility in our export market.

There is little doubt that our marketing techniques come on the way of our exports. A variety of satisfactory infrastructural facilities at sea and airports, provision of know how for correct packaging, financing and insurance arrangements and warehousing facilities abroad should be given promptly and correctly. A systematic and scientific study should be made to project in advance our demand abroad and production and marketing machinery should be adjusted accordingly.

Thus if the authorities give proper attention to the genuine problems of exporters—internal and external—and if thrust is given to steady and longterm export promotion policy, one can be sure of facing the present challenging foreign exchange crisis confidently and successfully.

REFERENCES

1. *Economic Trends* (Supplement) - Midyear Economic Review—November 1980.

2. Export Assistance Policy and Export performance of India in the seventees — S. K. Vergheese, Centre for Policy Research—January 1978.

3. Hand Book of Export Statistics, 1978-79.

4. Draft Five Year Plan (1978-83)

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Protectionism in International Business and India's Export Promotion Policy

By S. A. ANWAR *

RECENT years have witnessed the emergence of control regimes by which the developed countries have protected their markets against the inflow of products from the Third World. The developing countries of the South have directed their main attack on trade barriers and protectionist policies that have come to operate in the developed countries of the North. Since developed countries are the markets with the highest export potential for manufactured products, it has become imperative for developing countries to seek easier access to them by pressing their demands for lower trade tariffs and fewer trade barriers, and particularly for preferential treatment of their export flows of manufactured products to developed countries.

In this paper an attempt is made to (a) describe how far protectionism in international business is a problem for developing countries' exports, including India, and (b) make some general suggestions for the benefit of policy makers and export managers in India to respond effectively to the challenge of protectionism by pursuing realistic export promotion policies.

An examination of evidence relating to the recent trends in North-South trade reveals that almost two-thirds of Third World's exports to developed countries are subject to trade controls that are often manifested in specific limitations on trade, charges on imports, standards, government intervention in trade, prohibitive customs entry procedures etc. It is the rising volume of manufactured and semi-manufactured products from the Third World that has been most adversely affected by protectionist policies of developed countries. Although Third World manufactures represent less than 10 per cent of manufactures imported by developed countries and a modest 2 per cent of their consumption of such products, certain types of their manufactures such as textiles and clothing, machinery, and electronics have expanded immensely in the markets of developed countries. This is now threatened by the new protectionism of the developed countries.

A major implication of protectionism through non-tariff barriers relates to Generalised System of Preferences (GSP). The tariff concessions offered by developed countries under GSP are carefully neutralised by the introduction of non-tariff barriers. The General Agreement on Trade and Tariffs (GATT) has constructed and is steadily updating an inventory of non-tariff barriers based on some 800 complaints received since 1968 from developing countries whose exports to developed countries have been affected. These complaints have been divided into four major types of non-tariff barriers: † (i) state trading, government monopoly practices; (ii) customs and administration procedures; (iii) standards (health, sanitary, labelling, etc.), and (iv) charges on imports (internal taxes, levies. etc.). In addition to these 'visible' non-tariff barriers, there may well be instances of non-tariff barriers which do not get recorded. For example, many importers, when clearing their goods through customs, experience delays which often result in spoilage.

The issue in protectionism which has caused great controversy at international fora is that of safeguards. Article XIX of the GATT code permits countries to take temporary measures against imports which cause, or threaten to cause, serious setback on domestic producers. These measures are supposed to be non-discriminatory and provide for adequate compensation to exporters. But developed countries have subjectively interpreted this clause with a view to introducing non-tariff barriers causing injury to developing countries' exports. The Multi-Fibre Arrangement (MFA) may be cited as an example to bring home this point.

When MFA was first negotiated, under GATT auspices in 1973, it was considered as a means of providing regulated and positive growth in Third World textile and clothing imports into industrial countries. allowing domestic industries time to adjust to a more competitive situation. The Third World producers agreed to a four-year scheme, accepting a relatively modest annual growth rate of 6 per cent, hoping that it would provide some insurance against sudden and arbitrary action by importers. However, the provisions of MFA relating to quota limits for specific products and the right of importers to take reasonable depatures from agreed growth of such quotas for certain sensitive products have been used to cause adverse effects for Third World textile exporters as a whole. In sum, developing countries now face a wide array of non-tariff barriers which are discriminatory, subtle, and difficult to eradicate.

Even if tariff and non-tariff barriers could be done away with, supply and domestic policy constraints remain in developing countries including India. One estimate by the World Bank is that India would double its mnufactured exports by 1985 if it adopted a package of improved export policies. Let us now suggest a modest package of policies and strategies that would be, hopefully, of some use to policy makers

---

* Dr. S. A. Anwar is Lecturer, Faculty of Management Studies, University of Delhi, Delhi-110 007.

† See for example, GATT, *Consolidated List of Requests for Concessions*, MTN/TP/W/11/Rev. 2, October 11, 1976,

and managers in the area of exports in India.

The problems that hamper the more rapid growth of exports of India relate particulary to manufactured exports, including both manufactures and semi-manufactures. The developed countries have an important part to play in easing immediate difficulties faced by India and other developing countries by according preferential treatment to their exports of manufactured products. But a developing country like India has by far the greater share of responsibility by taking appropriate action that only it can decide and implement. The policies and strategies that have an important impact on export performance are largely related to managing the economic system and business enterprises in India. We shall first highlight the macro-management policies.

Most national economic policies influence export performance in one way or another. The pattern of industrialisation is the most fundamental measure of a country's capacity to export its products. Existing patterns in India reflect a heavy bias in favour of import-substituting industries. The pattern has generally restricted the industrial capacity to export manufactures, because import-substituting industries are essentially 'inward-oriented' and must undergo a process of reorientation in order to serve foreign markets.

The problems of reorienting import-substituting industries to participate in export activities are often aggravated by many inefficiencies and high production and non-production costs. The domestic market in India has survived despite these inefficiencies because high—and sometimes prohibitive—import duties and quantitative restrictions, rationalised by the scarcity of foreign exchange, have severely restricted competitive imports. At the same time, failure to curb inflation has contributed to higher costs. The growth of population and its purchasing power has also contributed to the pressure of domestic demand and has helped establish a seller's market in India for many products.

Under these circumstances, it would be worthwhile for the government to introduce measures to bring technology, quality, and service in tune with the foreign situation. It is also important to accord sufficient priority to export industries in matters of scarce resource allocation, such as foreign exchange funds, research and development budgets, foreign aid, and similar resources that are helpful to consolidate their position in world markets mainly by exploiting the opportunities under GSP.

Bureaucratic machinery and red tape represent another relevant area of the Indian government's responsibility where progress has been lacking. The multiplicity of laws and regulations pertaining to exports, the variety of control agencies, overlapping jurisdiction, the occasional inconsistencies and conflicting interpretation of rules, and the lengthy process of documentation are some of the most powerful invisible barriers to export growth in India. Effective corrective action in this area is long overdue.

BANK OF
बैंक ऑफ महाराष्ट्र
SAVING

We take care of the hands that feed us..

Agriculturist is backbone of our Nation - - and we finance agriculture.
Your savings are a valuable help to us in this task.
Save with
Bank of Maharashtra.

Bank of Maharashtra
(A Government of India Undertaking)
H.O. Lokmangal,
PUNE : 411005.

R.A.ADVTG.

Finally, India must strengthen the export infrastructure, which comprises those services that are basic to the efficient performance of export business and that individual enterprises cannot provide for themselves on an economic basis. Examples include overseas communications, shipping and freight handling, export credit and export-risk guarantee, foreign market research, export promotion and so on. Adequate provision of most of these services at reasonable rates is the responsibility of the Indian government. In addition to these areas, action is needed at the enterprise policy level to boost India's exports. In this context, one may make some points in the following paragraphs.

The first striking feature at the enterprise level is the reserved—and rather passive—attitude of many business managers *vis-a-vis* export markets, which tend to come second to domestic markets in management's hierarchy of priorities. This attitude seems to be mainly a function of the contrast between protected market conditions in India and perceived threatening conditions of export markets. Consequently, many of the basic policy questions pertaining to export management are seldom considered explicitly and adequately. In order to meet the challenge of international marketing that has become quite problematic by the coming into being of protectionist policies, India's export managers have to adopt effective policies and strategies relating to some crucial areas of international marketing, namely pricing, promotion, and distribution.

The pricing decision is perhaps the most important and most difficult decision in export management. There are no basic world-market prices that are easily obtainable, so knowledge of the prevailing prices of manufactures in the export markets and assessing their probable future behaviour depend on information relayed by contacts in several overseas markets. The core of such a net work of contracts usually consists of a system of distribution that provides the main link between the supplier and his overseas markets. Apart from a few well-established enterprises, the majority of exporting enterprises in India do not seem to have been able to create this important link.

The conservative—and somewhat rigid–pricing methods that are based largely on the concept of full-cost-pricing may not always prove effective in international marketing. In fact, the highly competitive and dynamic conditions in most export markets suggest the use of flexible pricing methods. Interestingly, an increasing number of Indian enterprises have sought to meet this challenge by applying for government export subsidies. Although subsidies may be warranted under certain circumstances, more often, their widespread and persistent use is a costly means of promoting exports. This is also a reflection of basic inefficiencies that need to be dealt with ably.

The shortage of foreign exchange in India has restricted the coverage and frequency of promotional campaigns by the Indian exporting enterprises. But behind the meager allocations made for this purpose is the management's widely held belief that the most effective promotion lies in granting price reductions and in the ability to undercut competition in foreign markets. The limitation of this assumption is that price-based promotion assumes not only a price–elastic demand but also that there will be no retaliatory action by the competitors.

Moreover, the promotional objective that should be one of export management's main concerns is to counteract the generally poor image of the products. Price-based promotion, however, may reinforce the image of inferior quality. We feel that carefully planned and well-conceived promotional campaigns are needed to cultivate not only a better product image but also a more appealing country-of-origin image in the minds of overseas customers. Timely campaigns may also be used to mobilise public opinion against unnecessary protectionist policies relating to attractive products.

Many export managers in India do not yet appreciate fully the vital role of channels in export marketing, Instead of devising the means of gaining solid and lasting bridgeheads, Indian managers have generally sought to sell abroad to any interested buyers on a transaction basis. In many cases, once the goods are sent and payment is received, contact between buyers and suppliers is lost or terminated.

Setting up appropriate distribution channels in foreign markets is of great significance for export managers in India. This may be a slow process because many established channels are controlled, or at least influenced, by the principal domestic and foreign suppliers, which often attempt to persuade their distributors to block the entry of newcomers. Thus, a carefully thought out distribution strategy would serve as an aid to export marketing.

Finally, it may be mentioned that the approach to India's export promotion policy, suggested above in view of existing protectionism in international business is rather general and needs empirical support. It is hoped that this would lead to further discussion and research relating to India's export promotion policy.

ADB TECHNICAL AID FOR PROJECTS COURSE

Senior officials of power utilities and government agencies concerned with planning and monitoring power projects and with regulating power utilities from 15 developing member countries will be invited to attend the South Asia and South East Asia and Pacific Regional Power Projects Course (1981) to be held in Kyongju, the Republic of Korea, from September 7 to October 30, 1981. The Course sponsors are the Economic Development Institute (EDI) of the World Bank, the Asian Development Bank and the Korea International Economic Institute (KIEI).

The main objective of the Course is to enhance the participants' understanding of available analytical techniques in power project analysis in order to enable them to formulate, evaluate and implement short and long-term power development programmes efficiently and economically. Participants will be officials from the upper management level of power utilities and government offices concerned with planning, monitoring and regulating power projects and programmes.

1980 : A GLORIOUS YEAR

	RUPEES IN CRORES	
	1979	1980
DEPOSITS	Rs. 690	Rs. 832
ADVANCES	Rs. 419	Rs. 472
ADVANCES TO PRIORITY SECTOR (Excluding Exports)	Rs. 158	Rs. 187
PROFITS	Rs. 0.62	Rs. 1.13
NUMBER OF BRANCHES	653	714
% OF PRIORITY SECTOR ADVANCES	42.3	43.4

BANK OF MAHARASHTRA

(A Government of India Undertaking)

H. O. : "LOKMANGAL" SHIVAJINAGAR, PUNE-411 005.

Dimensions of our Foreign Exchange Earnings

By K. RAMACHANDRAN NAIR *

THE problem of living within our means has emerged as a major one in the context of a declining trend in India's foreign exchange reserves. Things go well with us so long as we are content to live within our foreign earnings and badly just as soon as we live beyond them or too perilously near them. Indeed the most effective means of obtaining foreign goods is to buy them with our exports rather than looking for official donations, capital transfers and loans. It is only wise to cut the import bill according to the export earnings. It is no doubt difficult for a developing country like India to subscribe to this dictum in the short run, but in the long run, no country could afford to live beyond its means. This paper attempts to analyse the true dimensions of India's foreign earnings and argues that Indian has to learn to live within her means. The export of merchandise and invisible earnings (net) constitute the chief means of purchasing our imports. Table 1 indicates the chief means of financing imports during the period 1950-51 to 1975-76.

All figures are expressed as percentages of each year's imports. It can be seen that while exports of merchandise financed about 99 per cent of total imports in 1950-51, it could finance only 82 per cent in 1955-56 and 57 per cent in 1964-65. As a means of financing imports, it reached an all-time low of 48 per cent in 1957-58 which was incidentally the worst year in India's foreign trade, characterised by a combined fall in exports and a big push in imports. But after 1964-65, merchandise exports picked up an upward trend, reaching 107 per cent of imports in 1972-73. But, thereafter, the trend seems to have got reversed. Net earnings under invisibles began to show a steady decline since 1956-57 and it even assumed a negative contribution to the financing of imports during 1961-62 to 1964-65, thereby putting the burden singularly on export of merchandise which was not sufficiently prepared to meet the challenging task. However, after 1964-65, invisible earnings showed a remarkable increase upto 1972-73. But, thereafter, they started declining, even reaching the level of 5 per cent of imports in 1975-76. On the whole, our total current foreign earnings, comprising of merchandise exports and invisibles (net) could fully finance our total imports only for just six years during the twenty six year period of 1950-51 to 1975-76. And of these, the year 1972-73 was the best year when total earnings reached 131 per cent of total imports.

Table 2 helps us to discover the purchasing power we had in 1950-51 and subsequently. The purchasing power of exports and invisibles (net) in each year is calculated as a percentage of total imports prevailing in 1950-51 to find out how far the purchasing power has fluctuated during the period. Total imports in 1950-51 were Rs. 650.22 crores. The imports in 1975-76 were 780 per cent more than that of 1950-51. In 1950-51, merchandise exports could finance not only 99 per cent of total imports, but in combination with invisibles (net) could even generate a small current account surplus in total earnings over import payments. By 1975-76 the purchasing power of exports showed an increase of 528 per cent over 1950-51. In other words, if India's imports in 1975-76 were equivalent to the level that prevailed in 1950-51, the exports could

TABLE–1

MEANS OF FINANCING TOTAL IMPORTS 1950–51 to 1975–76

Year	Exports of merchandise	Invisibles (net)	Total Earnings	Total Imports	(+) or (–)
1950-51	99	6	105	100	+ 5
1951-52	75	2	77	100	—23
1952-53	82	4	86	100	—14
1953-54	86	6	92	100	— 8
1954-55	92	6	98	100	— 2
1955-56	82	8	90	100	—10
1956-57	57	11	68	100	—32
1957-58	48	9	57	100	—43
1958-59	56	8	64	100	—36
1959-60	67	9	76	100	—24
1960-61	57	3	60	100	—40
1961-62	66	–1	65	100	—35
1962-63	63	-2	61	100	—39
1963-64	65	-1	64	100	—35
1964-65	57	-1	56	100	—44
1965-66	57	24	81	100	—19
1966-67	58	28	86	100	—14
1967-68	60	17	77	100	—23
1968-69	71	18	89	100	—11
1969-70	89	27	116	100	+16
1970-71	94	24	118	100	+18
1971-72	88	23	111	100	+11
1972-73	107	24	131	100	+31
1973-74	91	19	110	100	+10
1974-75	60	7	67	100	—33
1975-76	80	5	85	100	—15

Source : R. B. I.: *RBI Bulletins and Reports on Currency and Finance.*

(All figures as percentage of each year's imports) have generated a 528 per cent surplus in balance of payments. Considering the purchasing power of our total earnings, including invisibles, the increase was only 531 per cent as against 780 per cent increase in total imports. It must be noted that, in absolute terms, India's total foreign earnings are far from adequate to finance the ever-growing imports. This is truely reflected in the balance of payments current account which has been in deficit since 1956-57.

---

* Dr. K. Ramachandran Nair is Reader, Department of Economics, University of Kerala.

This made the rupee slightly sick and the sickness became very acute in the terminal year of the Third Plan and monetary experts recommended the devaluation of the rupee. A lot of evidence was presented to demonstrate that the rupee was highly over-valued; that export promotion schemes had intensified overvaluation and that a sudden flight from currency would establish beyond doubt the loss of credit-worthiness of the country which was approaching the brink of financial collapse. Due to these pressures, the rupee was finally devalued in June 1966.

It has been shown that since 1950-51, the exports of merchandise could finance only a diminishing proportion of total imports. The exports as a percentage of national product at current prices also fared rather badly. In 1950-51 exports constituted 6.6 per cent of our national product. Since then it steadily fell reaching 3.8 per cent in 1965-66. But thereafter the export ratio gradually increased to reach 5.25 per cent in 1974-75 and 7.9 per cent in 1976-77. Allied to the problem of falling purchasing power of exports is the problem of falling commodity prices. While admitting the need to live within our means, it may be argued that developing countries like India must be assured of fair prices for their exports to enable them to do so. This is not a mere trade question. It is a serious development problem. Thanks to the work by Prebisch, Singer and Myrdal, the problem has been given the main focus in the deliberations of the UNCTAD, in the North-South dailogue and the blue-print for the New International Economic Order (NIEO). Fluctuations of export earnings are one of the weakest elements in development planning in the Third World. The division of the world economy into the rich industrial centre countries and the poor peripheral countries engaged in primary production has caused wide and socially disturbing income-growth differentials. The R.B.I. data on export unit value index, export quantum index, import unit value index and import quantum index show some disturbing trends. For instance, while the unit value index of exports increased from 106 in 1970-71 (1968-69 = 100) to 245 in 1977-78, that of imports increased from 100 to 267. Though the export quantum index increased from 106 in 1970-71 (1968-69 = 100) to 135 in 1977-78, and the import quantum index increased only marginally from 87 to 94, both the value terms of trade and the quantum terms of trade declined respectively from 106 in 1970-71 to 77 in 1976-77 and from 82 to 57. However, there was some improvement in both the terms of trade during 1977-78. This only goes to show that collective international efforts should be continued with added vigour to enable developing countries like India to live and to learn to live within their means.

TABLE 2

MEANS OF FINANCING IMPORTS AND THEIR PURCHASING POWER
(1950–51 to 1975–76)

Year	Exports of merchandise	Invisibles (net)	Total Earnings	Total Imports	(+) or (—)
1950-51	99	6	105	100	+ 5
1951-52	112	3	115	149	—34
1952-53	88	5	93	107	—14
1953-54	81	6	87	93	— 6
1954-55	91	6	97	100	— 3
1955-56	98	13	111	117	— 6
1956-57	97	17	114	169	—45
1957-58	91	16	107	189	—82
1958-59	88	14	102	158	—66
1959-60	96	12	108	142	—34
1960-61	97	5	102	170	—68
1961-62	102	—2	100	153	—53
1962-63	104	—2	102	167	—65
1963-64	121	—1	120	187	—67
1964-65	125	—2	123	214	—91
1965-66	124	52	176	217	—41
1966-67	149	71	220	257	—37
1967-68	184	52	236	309	—73
1968-69	212	54	266	293	—27
1969-70	217	65	282	243	+39
1970-71	236	61	297	251	+ 46
1971-72	247	65	312	280	+ 32
1972-73	301	67	368	281	+87
1973-74	371	76	447	405	+42
1974-75	489	57	546	810	—264
1975-76	622	41	663	780	—117

(All figures as percentages of total imports prevailing in 1950-51 Rs. 650.22 crores)

As the chief means of buying our imports, exports of merchandise must indeed bear the primary responsibility. But weather merchandise exports could do it would depend largely on domestic production, the world demand for our exportables and general world economic stability. The trend in India's export shows that the export performance was significant in the case of machinery and transport equipment, iron and steel, chemicals, textiles, fish, coffee etc. While comparing the relative trends in quantum and value, it was found that with the exception of sugar, the higher export earnings were due mainly to an increase in the unit values of these goods. This would indirectly suggest that these exports of India enjoyed a substantial world demand with the result that they succeeded in getting higher unit values. While the rise in exports as a whole was fairly broad-based, there was sizable decline in the quantum of exports of items like jute manufactures, oil cakes, leather manufactures and cashew kernels. The exports of these traditional items have been made difficult due to the lack of competitive advantage in the world markets despite the subsidies and preferences enjoyed by them. Domestic action is also urgently required to overcome domestic inelasticity in the supply of certain exportables and also to prevent diversion of exportables into the pool of domestic consumption.

A look at the regional pattern of India's foreign trade indicates that the USSR and other East European countries have recently emerged as the chief buyers of our exports, pushing the UK and the USA to lower positions. This would suggest action on two lines. Firstly, further strengthening of economic relations with the USSR and the East European countries anp expanding mutually beneficial trade. Secondly, discovering, most urgently, the factors that have led to the fall in the share of exports to our traditional markets like the UK and the USA which have a tremendous demand potential. The increase in exports to socialist countries may not always be based on competitive advantage since many non-price factors determine both the type of commodities and their quantum entering into such trade. Further, since such trade is always conducted under the rules of Rupee trade. the trade is well balanced, and, therefore, the purchasing power of exports to the socialist countries does not pose a problem at all for India. But the decline in exports to the UK and the USA would weaken our purchasing power to buy our imports from these markets.

In discussing the true dimensions of our foreign earnings one should give due attention to invisibles also. In India, they were lending a poor support till recently to exports in financing imports. But after the rupee devaluation in June 1966, the earnings under invisibles started to improve. The total net surplus under invisibles reached Rs. 930 crores in 1975-76, thanks mainly to the inward remittances from the Gulf countries. The biggest contribution under invisibles in the earlier years, however, came from investment income and transportation, while the earnings under travel were almost stagnant. The devaluation of the rupee was expected to switch tourist expenditures from India's closest rivals to our country on the assumption that the tourist was an economic man responding to changes in the exchange rate. In 1966-67 invisible earnings could finance only 5 per cent of that year's imports. As our imports increase, something has to be done to increase our invisible earnings (net) also so as to give due support to the merchandise exports in financing India's imports.

India has other means of financing imports also. But they do not come under the category of earnings. These means do not determine the country's purchasing power. They are treated here as an index of charity on which the country relies willingly or unwilingly to cover the current account balance of payments deficits. These means include official donations and gifts. In 1952-53 and 1953-54, the amount of donations exceeded the annual trade balance. By 1975-76, the official transfer payments (net) reached Rs. 238 crores which was only marginally lower than the trade balance surplus in that year.

The burden of financing the deficit in the balance of payments current account seems to have been borne by external assistance in the capital account. As the balance of payments capital account clearly shows, the inflow of external assistance was being used not only to finance the deficit but also to compensate for the outflow of capital, adverse movements in invisibles and the growing repayment of past liabilities. The I.M.F. has reported that in 1964, India devoted 12 per cent of her exports for debt service. In 1976, debt service amounted to 17 per cent of exports. Considering the massive growth of the interest-bearing external obligations of the Government of India from Rs. 60.77 crores in 1950-51 to Rs. 2,418.14 crores in 1964-65 and Rs. 9,809 crores at the end of March 1979 as shown in the Budget Estimates for 1978-79, it is likely that more exports will have to be reserved for meeting debt service liabilities in the years to come.

There are only two ways to meet these obligations honourably. First, by enlarging our true earnings, and, second, by successfully getting a massive inflow of remittances from the Indians working abroad, interest-free grants and low interest-bearing loans from friendly countries and international lending institutions. Of these, the remittances from Indians abroad have shown substantial increase during recent years and more can be expected under this head despite the recent tightening of emigration and employment rules and the confrontation between Iran and Iraq. The other two types of inflow, however, depend on the general aid climate and the pattern of international economic relations.

While the country requires an ever-growing means to finance foreign purchases and repay past liabilities, it must also see that these means are properly conserved and used. We have already shown that our means to finance imports have failed to grow as required. An outflow of capital funds from the country has made the position of net foreign earnings somewhat smaller. The UNCTAD sometime ago asked the IMF to submit a report on the magnitude and trend of the net outflow of short-term funds from developing to the developed countries. This was done in the belief that there was a large and persistent capital flight from the developing countries. Following this, exploratory studies were made to assess directly and indirectly the magnitude of such capital outflow. TABLE-III shows the magnitude of capital outflows from India as indicated by the debit entries under such items as long term and short term private capital, banking capital, official loans, amortisation and foreign exchange reserves.

In 1975-76, the total gross outflow reached the high figure of Rs. 2,421 crores, almost equal to more than half of India's total merchandise imports in that year. If we add to this the gross outflow of funds as shown in the debit entries of the current account, the final total figure would still be larger. The Review Committee for Balance of Payments Statistics

TABLE-3
GROSS CAPITAL OUTFLOW AS SHOWN BY THE DEBIT ENTRIES IN THE BALANCE OF PAYMENTS CAPITAL ACCOUNT

(Rs. crores)

Year	Private		Banking	Official				Total
	Long term	short term		Loan	Amortisation	Miscellaneous	Foreign exchange	
1960-61	26.6	8.4	34.4	15.7	37.6	37.0	23.4	183.10
1965-66	53.8	6.3	48.0	35.7	74.3	198.7	113.2	530.00
1966-67	60.0	8.1	89.2	43.1	128.3	354.6	157,4	840.70
1967-68	45.9	15.2	105.7	45.3	169.1	292.8	138.1	812.10
1968-69	49.5	2.6	55.2	62.4	159.6	290.4	174.6	794.36
1969-70	66.3	2.1	37.2	128.2	180.8	192.6	316.9	924.10
1970-71	68.2	2-2	51.4	157.2	190.5	340.8	230.9	1041.20
1971-72	55.4	2.3	45.1	10.8	213.2	152.8	290.3	772.90
1972-73	63.7	1.1	83.7	1.3	254.4	260.1	113.6	777.90
1973-74	75.8	2.4	55.3	1.6	1991.1	288.0	365.8	2780.70
1975-76	103.1	1.6	102.6	1.8	283.7	840.1	1088 6	2421.70

(1965) headed by Bernstein had pointed out that the present day balance of payments statistics are not good enough for policy making and that the size of *"errors and omissions"* entry in the balance of payments accounts is an obvious evidence of gross deficiency in such accounts. Though claimed to be a statistical adjustment for possible errors and omissions in the compilation of the data, a minus entry under the head would be a rough indication of possible outflow of funds used for financing transactions which have escaped proper recording. The minus entry of errors and omissions in India's balance of payments accounts even reached the high figure of Rs. 296 crores in 1974-75 and Rs. 241 crores in 1975-76 as compared to only Rs. 6.3 crores in 1965-66.

An attempt has been made above to examine the true dimensions of our foreign earnings during the period 1950-51 to 1975-76. Exports of merchandise and invisibles are considered as our true earnings. The purchasing power of exports and invisibles has been calculated by defining purchasing power as the proportion of 1950-51 imports which could be bought each year. It was found that though the purchasing power defined in this way has increased, it could not make any favourable impact on the balance of payments accounts due to a relatively much bigger increase in the value of total imports. In absolute terms, India's true foreign earnings are far from adequate to finance the ever-growing imports. Falling commodity prices of our exports, deterioration in terms of trade, fall in the share of exports to the traditional markets of UK and USA, fall in exports of traditional goods and growing outflow of funds from India are some of the crucial factors that determine the true dimensions of our foreign earnings. Though India has currently a large foreign exchange reserve and the rupee is fairly strong, every effort has to be made to enlarge the spectrum of our chief means to finance imports, the means being merchandise exports and invisible earnings. This largely depends on our determination to live within our means.

summary assessment scheme gives you an easy and quick income tax assessment

- No notice requiring your presence in the Income-tax office
- No summons for producing your account books before your income tax Officer
- No additions to the income declared by you in your return

SURELY YOU WOULD LIKE YOUR ASSESSMENTS MADE THIS WAY

all that you need do is

- FILE your return in the correct prescribed form as applicable to you
- FURNISH correct and complete particulars of your income and other details in the various parts and annexures of the return
- ENCLOSE with your Return relevant statements of accounts' such as Trading/Manufacturing A/C. Profit & Loss A/C Balance-sheet etc. if any
- ATTACH to your Return CERTIFICATES of tax deducted at source, COUNTERFOILS of chalans of advance-tax and self-assessment tax payments, RECEIPTS for payment of compulsory deposit, life-insurance premia etc

A CORRECT AND COMPLETE RETURN IS THE BEST SECURITY AGAINST TAX WORRIES

DIRECTOR OF INSPECTION
(Research, Statistics, Printing & Public Relations)
INCOME TAX DEPARTMENT
New Delhi-110001

davp 81/49

Recent Trends in India's Foreign Trade: An Official Review

INDIA'S foreign trade is passing through severe strains in the face of growing imbalances for the last few years. While domestic and external constraints like drought, shortage of power and basic inputs, global recession and growth of protectionist tendencies abroad have had an impact on the growth of exports, there was a phenomenal rise in import bill due to steep rise in world prices of POL, fertilizers etc. In turn, the deficit of India's foreign trade which amounted to Rs. 1088 crores in 1978-79 rose sharply to Rs. 2439 crores in 1979-80 and is expected to exceed Rs. 4000 crores in 1980-81.

The latest provisional data of India's overall exports for the first 9 months of the financial year 1980-81 (April—December) are placed at Rs. 4613.47 crores indicating a rise of about 5.5 per cent over the provisional figure of Rs. 4372.36 crore in the corresponding period of the previous year. Whereas provisional imports during April—December 1980 are at Rs. 8420.23 crores were higher by 49.6 per cent, resulting in a trade deficit of Rs. 3807 crores during the first 9 months of 1980-81. These export/import data for for April—December 1980 are provisional and incomplete due to inadequate receipt of trade returns from certain ports and hence the performance of this period is not strictly comparable with that in the corresponding period of previous year. The trend of exports, imports and balance of trade for the last some years is shown on Table 1.

Export Trends

Performance in 1979-80: According to latest available data, India's overall exports during the year 1979-80 amounted to Rs. 6449.11 crores showing a rise of 12.6 per cent over the exports in the preceding year. This was higher as compared to growth rate of 6 per cent in 1978-79 and 5.1 per cent in 1977-78. Nevertheless, the average annual growth rate for the period of 3 years from 1977-78 to 1979-80 was 7.9 per cent as against a high growth rate of 26.9 per cent realised in the earlier 3 years.

The increase in the aggregate value of exports during 1979-80 (as compared to 1978-79) was contributed by a number of items. Among the important primary products, exports of coffee increased by 13 per cent from Rs. 114.53 crores to Rs. 163.31 crores, cashew kernels by 38 per cent from Rs. 80.23 crores to Rs. 110.55 crores, rise by 228 per cent from Rs. 38.71 crores to Rs. 126.88 crores, raw cotton by 36.8 per cent from Rs. 16.01 crore, to Rs. 74.92 crores, fish and fish preparations by 11 per cent from Rs. 223.12 crores to Rs. 249.13 crores and iron ore by 24 per cent from Rs. 232.91 crores to Rs. 289.34 crores. Despite the fact that there was decline in the volume of exports of fish by about 2 per cent and in coffee by 6.6 per cent, there was increase in their export earnings due to higher unit value realisation. Cashew, iron ore, rice and raw cotton were also exported in larger quantities during 1979-80. Cashew and iron ore fetched higher unit value realisation while in respect of cotton and rice it was lower.

In the group of manufactured products, leather, textiles, chemicals and allied products and works of art also showed significant increases. Exports of leather and leather goods increased by 61 per cent from Rs. 326.26 crores in 1978-79 to Rs. 524.88 crores in 1979-80, jute manufactures by 106 per cent from Rs. 165.63 crores to Rs. 341.18 crores, cotton fabrics by 27 per cent from Rs. 223.92 crores to Rs. 284.68 crores and works of art by 15 per cent from Rs. 87.79 crores to Rs. 101.13 crores. Jute manufactures, in terms of quantity, after declining from 5.2 lakhs tonnes in 1977-78 to 3.3 lakhs tonnes in 1978-79 recovered to 4.9 lakh tonnes in 1979-80. The average unit value realisation was about 39 per cent higher at Rs. 6963 a tonne during 1979-80 as against Rs. 5019 a tonne fetched in 1978-79. Exports of cotton fabrics which were virtually the same during 1977-78 and 1978-79 registered an increase of about 27 per cent in value during 1979-80 partly on account of 15.4 per cent rise in quantity and 10.2 per cent increase in unit value realisation. The increase in the case of products like tea, spices, sugar, readymade garments, machinery and transport equipment was small.

As against this, there was a substantial fall in the exports of pearls, precious and semi-precious stones (bulk items of gems and jewellery group) by about one-third from a record level of Rs. 710.59 crores in 1978-79 to Rs.481.44 crores in 1979-80 and the decline in iron and steel (inclu-

TABLE-1

(Rs. crores)

	1975-76	1976-77	1977-78	1978-79	1979-80*	April-December** 1980-81 (Prov.)
Exports	4042.25	5142.25	5404.26	5726.26	6449.11	4613.47
Imports	5265.20	5073.79	6025.29	6814.30	8887.83	8420.23
Balance of Trade	—1222.95	+68.46	—621.03	—1038.04	—2438.72	—3806.35

*Revised to date.

**Giving due allowance for the possible late/supplementary returns in the light of past trend, the exports are estimated to grow by about 10 per cent to reach a likely level of Rs. 7100 crores by the end of 1980-81.

ding manufactures of iron and steel of engineering goods) during the same period by55 per cent from Rs. 221.54 crores to Rs. 100.64 crores. According to Ministry of Steel and Mines, exports of prime steel during 1979-80 were valued at Rs. 18.40 crores only as against worth Rs. 127.15 crores in 1978-79. The other items like tobacco, oil-cakes, man-made fabrics and metal-manufactures also suffered decline in their exports. Despite larger exports in quantities, the shortfall in export earnings of oil-cakes and tabacco was because of lower unit value realisation. The decline in pearls, precious and semi-precious stones in 1979-80 was largely due to recession in the world diamond industry whereas iron and steel and other engineering products suffered on account of domestic supply constraints. Silver exports during 1979-80 were reduced to only Rs. 2.16 crores from Rs. 94.44 crores in 1978-79 due to ban on export of this item.

Performance in 1980-81: Official data of commodity-wise exports and imports are so far available for the first half of 1980-81. Since these data are still in provisional form and subject to considerable revision, the trend indicated may not provide a true picture about the performance of various items during the period until final data are available. However, based on available data, the values of exports of selected items during the year 1978-79, 1979-80 and during the first half of 1980-81 (April-September 1980) with comparative figures for the corresponding period of the previous year are shown in Table-2.

TABLE-2

PRINCIPAL ITEMS OF EXPORTS

(Value Rs. crores)

Sl. No.	Commodities	1978-79	1979-80 (Revised) (a)	Apr.—Sept. 1979 (Revised) (a)	Apr.—Sept. 1980*(Prov.)	%age variations Apr.—Sept.1980 over Apr.—Sept.—79
1.	Tea and mats	340.45	355.26	147.68	160.03	+8.4
2.	Coffee & Coffee substitute	114.53	163.31	81.83	112.53	+37.5
3.	Tobacco Unmanufactured & tobacco refuse	110.72	102.32	60.43	102.58	+69.8
4.	Spices	148.06	148.87	69.18	49.84	—28.0
5.	Oil cakes	115.79	115.09	66.43	43.10	—35.1
6.	Cashew kernels	80.23	110.55	62.38	70.79	+13.5
7.	Fish crustaceans, molluses and preparations thereof	223.82	249.13	142.66	83.11	—41.8
8.	Sugar & sugar preparations	136.08	145.79	56.50	13.58	—76.0
9.	Rice	38.71	126.88	54.99	41.23	—25.0
10.	Cotton raw	16.01	74.92	20.93	77.52	+270.4
11.	Crude vegetable materials	76.67	85.79	36.23	51.08	+41.0
12.	Iron Ore	232,91	289.34	113.32	128.95	+13.8
13.	Ores & Minerals including manganese ore and mica	80.86	90.16	42.18	47.28	+12.1
14.	Leather and leather mfrs.	326.26	524.88	262.90	153.41	—41.7
15.	Jute manufactures incl. twist & yarn	165.63	341.18	164.98	177.72	+7.7
16.	Cotton fabrics	223.92	284.68	132.79	130.55	—1.7
17.	Ready-made Garments	421.15	453.74	240.29	190.55	—20.4
18.	Made-up articles wholly or chiefly of cotton n.e.s.	56.67	74.33	33.07	39.68	+20.0
19.	Chemicals and allied Products	146.28	199.76	84.19	106.77	+26.8
20.	Pearls, Precious & semi-precious stones etc.	710.59	481.44	255.47	191.53	—25.0
21.	Works of arts	87.79	101.13	52.03	47.87	—8.0
22.	Machinery & Transport Equipment	395.00	421.90	215.34	244.42	+13.5
23.	Metal Manufactures excl. Iron and Steel	209.35	207.85	105.63	90.69	—14.2
24.	Iron and Steel (Including manufacture of Iron & Steel)	221.54	100.64	66.87	30.28	—54.7
25.	Silver manufactures	94.44	2.16	2.08	...	...
	Grand Total (including other items)	5726.26	6426.75(a)	3110.75(a)	3055.38*	—1.8

(a) —Revised but not final.

(*) —Including receipt of late returns from Calcutta, Dum-Dum and Palam ports of the value of Rs. 201.54 crores after the issue of Sept., 1980 Press Note, according to which provisional figure of exports for April-Sept., 1980 was Rs. 2853.84 crores.

Table-2 shows that items which have registered increase in their exports during the first half of 1980-81 as compared to the corresponding period of the previous year were mainly tea, coffee, tobacco, cashew kernels, cotton raw, iron ore, other ores and minerals, jute manufactures, made-up articles of cotton, machinery and transport equiqment and chemicals and allied products. As against this, exports showed decline in the case of items like oilcakes, sugar, rice, spices, leather and leather manufactures, cotton fabrics, ready made garments, pearls, precious and semi-precious stones, hand made carpets, iron and steel and metal manufactures (excluding iron and steel). Statistiscally, the decline in certain items like garments, gems and jewellery may look mis-leading because of incomplete data of exports by air cargo. With the availability of full data as well as judged by recent trends, a number of these items are expected to improve their position during 1980-81, particularly textiles including garments, pearls, precious and semi-precious stones and handicrafts.

Exports of leather and leather manufactures witnessed a phenomenal growth in 1979-80 but there has been a substantial fall in the exports during 1980 81. The main reason for the unsatisfactory performance of leather goods is the prevailing recession in the international market, prices of hides and skins have come down by 15-20 per cent in the international market. Exports of marine products have suffered due mainly to fall in catch of prawns and rising cost of production as a result of increased fuel cost. In the case of spices, exports of major items like pepper and cardamom have improved quantitatively, but there has been no corresponding increase in export earning due to lower unit value realisation. The decline in the overall export of spices has been confined to other spices viz., chillies, ginger, turmeric etc. Sugar exports by STC during 1979-80 were of the order of 5.89 lakh tonnes valued at Rs. 138.3 crores. During 1980-81, however, export of sugar was restricted and recently banned to meet the domestic requirements. Exports of iron and steel also continued to dwindle to meet the growing need of industry.

It is significant to note that our growth segments of exports, such as, engineering goods and gems and jewellery which suffered setback in 1979-80 are showing signs of recovery. According to tentative data by Engineering Export Promotion Council, exports of engineering goods during April-September, 1980 were of the order of Rs. 324 crores as against goods worth Rs. 250 crores exported in the corresponding period of the previous year. This represented a rise of 29 per cent, sectorwise increase being capital goods 18.27 per cent, primary steel and pig-iron items 34.74 per cent (non-ferrous products 4.7 per cent) and consumer durables 41.03 per cent. During the year, there has been an improvement in the infrastructural facilities. Priority has also been accorded by the Government in the matter of allotment of basic inputs like steel, pigiron to engineering units so as to facilitate larger production for exports. Exports of gems and jewellery during April-December 1980 are placed by the Council at Rs. 474 crores, showing a rise of about 18.5 per cent over the exports of Rs. 400 crores in the corresponding period of 1979. The important handicraft items like wollen carpets and printed textiles have also tended to show good increases. Chemical and chemical products and processed food are also showing encouraging trend.

Based on various indications, the export target of Rs. 7100 crores set for the year 1980-81 is expected to be realised.

Import Trends

The year 1979-80 was marked by phenomenal growth in imports. At a total of Rs. 8887.83 crores imports during 1979-80 registered a rise of 30 per cent over the preceding year's level of Rs. 6814.30 crores. The pressure on import bill was yet more vigorous during 1980-81, reflecting the fuller impact of sharp increase in international prices of POL, fertilizers etc. On provisional basis, imports which during

TABLE-3

PRINCIPAL ITEMS OF IMPORTS (value Rs. crores)

Sl. No.	Items	1978-79	1979-80 (Revised) (a)	April-September		%variations in April-Sept.80 over April-Sept., 1979
				1979 (Revised) (a)	1980(*) (Prov.)	
1.	Cereal and cereal preparations	86.92	106.72	44.53	37.16	—16.6
2.	Synthetic and regenerated fibres	197.57	107.14	52.63	37.28	—29.2
3.	Fertilizers, crude	41.11	58.32	25.27	14-11	—44.2
4.	Sulphur and unroasted iron pyrites	37.12	84.78	45.23	30.85	—31.8
5.	Metalliferrous ores and metal scrap	67.70	89.97	38.46	53.03	37.9
6.	Mineral fuels lubricants and related products	1676.77	3023.52	1220.61	2320.12	90.1
7.	Vegetable oil, fixed (edible oil)	537.07	442.11	166.24	248.63	49.6
8.	Chemicals organic and inorganic	230.85	312.41	141.66	152.53	7.7
9.	Medicinal & Pharmaceutical products	79.18	73.02	44.79	39.12	—12.7
10.	Fertilizers, manufactured	370.73	403.01	137.56	281.28	104.5
11.	Artificial resins, plastic materials etc.	70.01	93.58	50.85	53.20	4.6
12.	Textile yarn, fabrics and made up articles etc.	47.38	53.44	24.02	27.49	14.4
13.	Paper, Paper-board and mfrs. thereof	104.70	154.67	72.03	92.17	28.0
14.	Pearls, Precious and semi-precious stones	466.65	347.06	169.79	235.43	38.7
15.	Non-metallic mineral mfrs, excl. pearls etc.	91.82	92.33	44.34	68.35	54.1
16.	Iron and steel	472.34	871.97	357.80	308.15	—13.9
17.	Non-ferrous metals	245.33	362.74	144.67	203.60	40.7
18.	Manufactures of metals	46.07	63.17	28.45	30.11	5.8
19.	Machinery and transport equipment	1344.46	1295.16	687.87	652.27	—3.9
20.	Professional, scientific, controlling instrument, Photographic and optical goods, watches and clocks.	118.44	155.13	81.62	113.42	39.0
	Total Imports (including other items)	6802.62	8687.48(a)	4098.38(a)	6024.28*	47.0

(a) —Revised but not final.

(*) —Including receipt of late returns from Calcutta, Dum-Dum and Palam ports of the value of Rs. 242.7 crores after release of Sept., 1980 Press Note, according to which provisional figures of Imports for April-Sept., 1980 was Rs. 5781.60 crores.

April-December 1980 amounted to Rs. 8420.23 crores indicated almost 50 per cent increase. Table 3 shows import trend of principal items for 1978-79, 1979-80 and provisional data for the first half of 1980-81.

Prominent among the items which registered varying increses in their imports during 1979-80 included POL (80.3 per cent) iron and steel (84.6 per cent), fertilizers manufactured (8.7 per cent), organic and inorganic chemicals (35.1 per cent), non-ferrous metals (47.9 per cent) and paper and paper board (47.7 per cent). In contrast, there was decline in the imports of machinery and transport equipment by 3.7 per cent, vegetable oils (edible) by 17.7 per cent, pearls, precious and semi-precious stones (unworked) by 25.6 per cent and synthetic and regenerated fibre by 46.8 per cent. During the first half of 1980-81 (April-September 1980) as compared to corresponding period of previous year, almost all the major items (indicated above for 1979-80) have shown increases in the value of import except for iron and steel. machinery and transport equipment and synthetic and regenrated fibres wherein decline was noticed.

The pressure on import bill has been by far the maximum from petroleum and petroleum products. Imports of POL during 1979-80 were 19.7 mllion tonnes valued at Rs. 3023.52 crores as against 18.7 million tonnes valued at Rs. 1676.77 crore in 1978-79. Although quantitatively the increase was only 5.3 per cent the rise in terms of value of imports was by 80.3 per cent due mainly to rise in c.i.f. unit price by 71 per cent from Rs. 897 a tonne to Rs. 1535 a tonne. During the first half of 1980-81, imports of POL on provisional basis, were placed at 11.1 million tonnes at a cost of Rs. 2320.12 crores, as compared to 9.9 million tonnes amounting to 1220.61 crores in the corresponding half of the previous year.

Thus, the increase in the quantity of imports during this period was by about 12 per cent, the rise in value terms was as high as 90 per cent again indicating a further rise in the c.i f. price from Rs. 1233 a tonne to Rs. 2090 a tonne during April September 1980. Total import bill in respect of POL for 1980-81 is estimated to be around Rs. 5600 crores. The relative share of POL in India's total imports during 1978-79 was 24.6 per cent but this increased to 34.8 per cent in 1979-80 and the relative share is likely to be 45 to 50 per cent in 1980-81. The large import bill for 1980-81 has been necessitated on account of disruption in the production of petroleum products because of Assam agitation and partly due to Iran-Iraq war which led to *ad hoc* purchase of crude oil in the spot market of about 1 million tonnes.

Imports of fertilizers (manufactured) also registered a substantial rise, both quantitatively and value-wise during the first half of 1980-81, reflecting the growing requirements of our agricultural operations. Imports of this item during April-September, 1980 were 16.52 lakh tonnes valued at Rs. 281.28 crores against 11.80 lakh tonnes valued at Rs. 137.56 crores in the corresponding period of 1979. The import bill on this account during the period was higher by 105 per cent mainly due to quantitative increase of 40 per cent and

TABLE-4
DIRECTION OF TRADE

(Value Rs. crores)

	1978-79		1979-80		April-Sept.'79		April-Sept. 1980	
	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
I. *West Europe*	2333	1785	2436	1940	1073	916	1692	749
	(34.3)	(31.2)	(28.0)	(30.2)	(26.2)	(29.4)	(28.1)	(24.5)
(a) E.C.M.	2082	1576	2120	1682	926	797	1455	641
	(30.6)	(27.5)	(24.4)	(26.2)	(22.6)	(25.6)	(24.2)	(21.0)
(b) EFTA	210	129	254	164	117	71	163	72
	(3.1)	(2.3)	(2.9)	(2.6)	(2.9)	(2.3)	(2,7)	(2.4)
(c) Other West Europe	41	80	62	93	30	48	74	36
	(0.6)	(1.4)	(0.7)	(1.4)	(0.7)	(1.5)	(1.2)	(1.1)
II. *Asia & Oceania*	2584	2144	3839	2390	1633	1100	2696	1100
	(38.0)	(37.4)	(44.2)	(37.2)	(39.8)	(35.4)	(44.8)	(36.0)
(a) ESCAP	1481	1486	1997	1680	787	765	1458	673
	(21.8)	(26.0)	(23.0)	(26.1)	(19.2)	(24.6)	(24.2)	(22.0)
(b) Rest of Asia	1103	658	1842	710	846	335	1239	337
	(16.2)	(11.4)	(21.2)	(11.0)	(20.6)	(10.8)	(20.6)	(11.0)
III. *America*	1084	847	1205	891	560	439	993	374
	(15.9)	(14.8)	(13.9)	(13.9)	(13,7)	(14.1)	(16.5)	(12.2)
(a) North America	1002	826	1093	870	502	431	822	363
	(14.7)	(14.4)	(12.6)	(13.9)	(12.2)	(13.9)	(13·6)	(11.9)
(b) Latin America	81	13	109	15	57	5	154	9
	(1.2)	(0.2)	(1.3)	(0.2)	(1.4)	(0.2)	(2.6)	(0.3)
(c) Other America	Negl.	8	3	6	1	3	18	6
		(0.1)	(negl)	(0.1)	—	(0.1)	(0.3)	(0.1)
IV. *Africa*	153	338	207	353	102	152	112	198
	(2.2)	(5.9)	(2.4)	(5.5)	(2.5)	(4.9)	(1.9)	(6.5)
V. *East Europe*	648	612	1000	583	357	358	471	632
	(9.5)	(10.7)	(11.5)	(9.1)	(8.7)	(11.5)	(7.8)	(20.7)
Grand Total	6803	5726	8688	6427	4098	3111	6024	3055

Note :— The figures in bracket indicate relative share of each region in total trade.

by 46 per cent in the c.i.f. unit price rising from Rs. 1166 a tonne to Rs. 1703 a tonne. There was also substantial rise in imports of vegetable oils (edible) in terms of both volume and value, which during April-September, 1980 stood higher at 6.42 lakh tonnes valued at Rs. 348.63 crores as against imports of the order of 2.78 lakh tonnes at Rs. 166.24 crores in the same period last year. Likewise there was also significant increase during April-September, 1980 in the imports of non-ferrous metals by 41 per cent, pearls, precious and semiprecious stones by 39 per cent and paper and paper board by 28 per cent.

Direction of Foreign Trade

The year 1980-81 is marked by widening trade gap. India's foreign trade in most of the traded commodities reflected a severe strain on the import bill arising out from increased imports of POL, fertilizers, non-ferrous metals, rough precious and semi-precious stones, vegetable oils etc. This tendency is particularly noticeable in the case of countries of West Asia and ESCAP (mostly OPEC), European Common Market and North America. During the year 1979-80 as compared to 1978-79. India's exports to ECM increased by 6.8 per cent, to EFTA by 27.2 per cent, North America by 5.4 per cent ESCAP by 13 per cent, to rest of Asia (mostly West Asia) 7.9 per cent, Africa by 4.4 per cent and to Latin America by 18.9 per cent. On the contrary, there was decline in the exports to East Europe by 4.7 per cent.

Since the trade figures available for the first half of 1980-81 (April-September) are very provisional and are not strictly comparable with the revised export/import figures for the corresponding period of 1979, it is difficult to assess the real position about the behaviour of our trade with other countries. Nevertheless, it is clear that the trend of offtake of Indian goods by developed countries of Europe and North America has disquieting during 1980-81. Demand from ESCAP and West Asia has also not picked up. There has, however, been substantial increase in the exports to East Europe, which during April-September 1980 at Rs. 632 crores registered a rise of about 77 per cent over the exports of Rs. 358 crores in the corresponding period of 1979. During this period offtake by the USSR rose from Rs. 265 crores to Rs. 528 crores. Exports to Africa and Latin America have also shown improvement.

The Government is seriously concerned over the problem of growing imbalances in our external trade. The strain on India's balance of payments due to rising import bill and draw down on foreign exchange reserves makes it essential to accord a very high priority to export promotion. Government is taking all possible measures to remove domestic constraints on production and to strengthen India's economic and trade relationship with other countries. A number of important measures have already been taken recently or being taken in the spheres of industrial licensing and promoting industrial exports, setting up EXIM Bank, reducing delays in disbursement of drawbacks and simplification of procedures, adjustments in export duty regarding coffee, hessian jute goods and semi-finished leather etc. It is hoped that with these and other measures it would be possible to strike a significant growth in our exports in the next few years. The Sixth Five Year Plan strategy aims at a substantial growth in the exports of agricultural commodities *viz.* marine products, processed food, fine rice, plantation crops etc. In the sphere of manufactured sector, engineering goods, garments and textiles products, silk, woollen and man-made textiles, chemical products, plastics, leather products and various other handicraft items including carpet, gems and jewellery have been identified as promising areas of exports. Simultaneously, investment allocations in the Sixth Plan assume considerable import substitution in various fields like steel, cement, fertilizers, crude oil and capital equipment of all kinds including electronics. The emphasis is on efficient import substitution which improves balance of payment as well as growth. — *From Annual Report of Ministry of Commerce, 1980-81.*

ENGINEERING GOODS EXPORTS TO EXCEED Rs. 900 CRORES IN 1980-81

Export of engineering goods have come to constitute the largest package in country's overall export-efforts. However, during 1979-80, the export of engineering goods declined from Rs. 717 crores in 1978-79 to Rs. 650 crores. Because of the general shortage of power, raw material inputs and other infrastructure bottelnecks from which even the export efforts could not be insulated. Due to the steps taken by Government in 1980-81, export of engineering goods during April-September, 1980 have increased to Rs. 324 crores as compared to Rs. 251 crores, that is, an increase by about 30 per cent as compared to the same period last year. Necessary assistance is being rendered to the industry and it is anticipated that the export target of Rs. 915 crores for 1980-81 will be achieved.

Apart from the overall growth in exports of engineering goods, the shift during the last six years towards the export of capital goods and turnkey projects is being accelerated. The Engineering Export Promotion Council (EEPC) expect to increase the share of capital goods and turn-key projects from about 38 per cent in 1978-79 to 50 per cent of the total export of engineering goods by 1990-91. Considering the relatively greater flexibility in increasing engineering exports and the country's confidence in securing a larger share of export market particularly in the oil-producing and other developing countries, the target for export of engineering goods by 1990-91 has been projected at Rs. 10,000 crores.

Subscribe to

SOUTHERN ECONOMIST

106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign:* 15 Dollars)
surface mail

Working of Public Sector Firms Engaged in Foreign Trade — A Review

The State Trading Corporation of India: The State Trading Corporation achieved an all time high turnover of Rs. 1529 crores during 1979-80. The turnover for 1980-81 has been budgeted at Rs. 1688 crores, an increase of 10 per cent over the last year. Performance this year to date amounts to Rs. 1,142 crores as against Rs. 1,049 crores during the corresponding period last year.

During the first nine months of the current financial year, i.e., April-Dec. 1980, the total exports were lower by Rs. 200 crores as compared to those during the same period last year. This is due to limited availability of sugar, molasses, groundnut extractions and alcohol for exports. In fact, STC had to import sugar to meet the domestic demand. Export of semi-processed and finished leather declined because of lack of demand in the international market which brought a fall in the international prices. Castor oil exports also came to a halt since May 1980 because of crash in international prices and continued firm trend in domestic prices. These exports have just been resumed with an improvement in international prices of castor oil.

The Corporation is laying more emphasis on the exports of non-canalised items the target for non-canalised items has been fixed at about 35 per cent higher than last year. These items constitute about 52 per cent of export turnover during the current year. Higher exports than last year have been made in respect of a number of items viz. rice, instant coffee, shellac, footwear, tobacco, leather goods and garments, processed foods, readymade garments and consumer products.

Import turnover of STC at Rs. 894 crores during April Dec. 1980 was much higher than the import sales of Rs. 603 crores during the corresponding period least year. This increase is mainly due to edible oils from Rs. 426 crores to Rs. 582 crores, newsprint from Rs. 69 crores to Rs. 96 crores and cement from Rs.33 crores to Rs.59 crore. Sugar imports also contibuted to the increased import sales to the tune of Rs. 91 crores.

Projects and Equipment Corporation of India: The Projects and Equipment Corporation of India Ltd., a wholly owned subsidiary of The State Trading Corporation, was incorporated in April 1971. It was primarily created to give an impetus to the export of engineering equipment and Projects from India. It deals in the export of engineering and electrial equipment, textile machinery and railway rolling stock and undertakes commissioning and execution of turnkey projects abroad. A professionalised cadre of personnel with vast experience in technological, commercial and financial fields and strategically located offices in different world markets form the network to serve foreign customers as well as Indian manufacturers.

The sales turnover of the Corporation during 1980-81 is expected to be of the order of Rs. 42.47 crores against Rs. 36.66 crores during the previous year. The export sales of the Corporation during April-December 1980 aggregate to Rs. 24.76 crores against Rs. 19.81 crores for the corresponding period last year. This reflects growth rate of over 24 per cent. The major items of export during April-December 1980 were railway wagons, coaches, and bogies to Vietnam, Sri Lanka, Bangladesh and Uganda, spark plugs, thermo-containers, printing machinery, spraying and painting booths to USSR, handtools, fence fittings, castings and forgings to USA, cast iron fittings to Iraq, textile machinery to Bangladesh, electrical equipment to Jordan, Dubai, Libya and Nepal, etc. The Corporation has already completed the Flour Mill Project in Sikkam. Work on Construction Projects worth Rs. 34.33 crores and consultancy contract for bicycle plant in Libya is in progress. The import sales during April-December 1980 aggregate to Rs. 15.22 crores.

The corporation has secured fresh orders worth Rs. 23.56 crores so far this year. The major contracts are for supplly of mechanical equipment worth Rs. 14.27 crores to USSR, lorries, compressors and other heavy machinery worth Rs. 6.87 crores to Mauritius and electric poles worth Rs.1.15 crores to Jordan. With the balance export order book of Rs. 80 crores as on 1st January, 1981, it is expected that the Corporation will achieve its export target set for 1980-81.

State Chemicals and Pharmaceuticals Corporation of India Ltd: This is a wholly owned subsidiary of the State Trading Corporation of India. CPC is the canalising agency for the import and distribution of chemicals, drugs and pharmaceutical raw materials in terms of the import policy of the Government. During the calendar year 1980, the total turnover of CPC amounted to Rs 128.99 crores (Rs.120.04 crores imports turnover and Rs. 8.95 crores export turnover) as compared to Rs.125.11 crores during the previous year 1979.

Minerals and Metals Trading Corporation of India: The Corporation has continued to play a significant role in the export and import trade of the country. The overall trade turnover of the Corporation during 1979-80 increased by 21.2 per cent over 1978-79. This trend has continued during this year also. The overall turnover, so far, (April to December 1980) has increased to Rs. 1340.1 crores compared to Rs.938.9 crores during the same period of 1979-80 —an increase of about 43 per cent.

During 1979-80, the value of exports by the Corporation showed a substantial increase of over 10 per cent, in contrast to a decline of over 3 per cent during the previous year. This is particularly significant in the context of the commodity composition which consists almost entirely of primary products from the mineral sector such as iron ore, manganese ore, coal, barytes and chrome ore. It is only very recently that the Corporation has sought to diversify its commodity base through export of products made out of imported metals. A beginning was made earlier with stainless steel. During the year under review, this activity has continued through with modest results. The Corporation also continued with its efforts to export non-canalised minerals. It met with some success in exporting a small quantity of granite in 1979-80. Recently another small trial order has been secured.

Exports of iron ore by MMTC during the last three years, from 1977-78 to 1979-80, have been as follows :

Year	(Qty. Million tonnes) (Value : Rs. crore) Quantity	Value
1977-78	12.29	62.51
1978-79	13.66	163.16
1979-80	13.87	170.15
1980-81	(P) 12.23	(P) 166.31
(April-Dec., 1980)	(10.06)	(123.05)

Note : Figures in brackets indicate exports during correspnding period of 1979-80.

(P) Provisional.

The Corporation continued its efforts to diversify markets for iron ore. The efforts in this regard were particularly satisfying and new markets for iron ore were established in Malaysia, Saudi Arabia, Pakistan and USSR. A long-term contract has been concluded with Pakistan Steel Mills Corporation for supply of 1.93 million tonnes of iron ore during the period 1980-81 to 1986-87. Similarly, for the first time, 2 million tonnes of iron ore was exported to USSR during this year. A noteworthy feature of the Corporation's iron ore exports has been a destinational shift that has taken place. Share of Japan in total exports was 67 per cent in 1977-78. By 1979-80, it came down to 53 per cent. This trend is likely to continue in the current year also.

Exports (inclusive of black iron ore) during 1979-80 totalled 6.73 lakh tonnes, valued at Rs. 13.87 crores, as compared to 6.68 lakh tonnes valued at Rs. 16.41 crores during the previous year. For 1980-81, a target of 7.0 lakh tonnes of manganese ore was set in line with the ceilings. Against this, contracts for almost the entire quantity have been concluded.

Only a modest export target of 1.4 lakh tonnes for export of coal valued at Rs. 4.36 crores was fixed for 1980-81. During the current fiscal year (up to Dec. '80) the Corporation exported 59,610 tonnes of coal valued at Rs. 1.65 crores to Bangladesh against last year's contract of 1.2 lakh tonnes for delivery from Oct. '79 to Sept. '80.

The import trade turnover of the Corporation from April to December, 1980, increased by about 46 per cent over the corresponding period of last year. The following table gives the import trade turnover of the Corporation:

	(Rs. crore) April-December 1980-81	1979-80
Non-ferrous metals	412.68*	273.12**
Stainless Steel	58.82	73.14
Industrial Raw materials	29.68	34.77
Fertilizer & Fertilizer Raw materials	640.52	402.68
Diamonds	...	...
Total	1141.70	783.7

*Upto 2-1-1981. **Upto 4-1-1980.

The Mica Trading Corporation of India: The Mica Trading Corporation of India Ltd. was set up in 1974 as a wholly owned subsidiary of the Minerals and Metals Trading Corporation of India to look after the export trade of processed mica, including mica scrap and waste. Though the export of processed mica is canalised through MITCO, the private exporters are also allowed to participate in the export. During 1979-80 processed mica valued at Rs. 30.40 crore was exported (by MITCO and private exporters). During 1980-81 (upto December, 1980) value of processed mica exported is estimated to be Rs. 18.20 crores. During the year 1979-80, MITCO exported fabricated mica valued at Rs. 21 lakh. Value of fabricated mica exported by MITCO during 1980-81 (upto December, 1980) is estimated to be of the order of Rs. 34 lakh.

Cashew Corporation of India: The Cashew Corporation of India (CCI) was set up in 1970 as the canalising agency for raw cashewnuts, with Headquarter in Cochin and a Registered Office in Delhi. It is a fully owned subsidiary of the S.T.C. The Corporation was able to achieve a break-through by concluding a contract with Tanzania for the supply of their entire exportable surplus of raw cashew for 1978-79 crop which resulted in securing a total supply of 84,000 MT which was 53 per cent more than in the previous crop year. After a gap of the two years, a similor contract for the entire exportable surplus was concluded with Kenya for supplies out of 1979-80 crop. A growth in imports for the year under review was achieved in the face of fast declining exportable surpluses from traditional producers in East Africa, arising out of lower crop/collection and enhancement of local processing capacities. The total turnover of the Corporation for the year is Rs. 21 crores which showed a growth of 24 per cent over the previous year. Profit before tax was also higher at Rs. 1.9 crores as compared with Rs. 0.9 crores in in previous year. Import turnover went up from Rs. 9 crores to Rs. 12 crores.

Tea Trading Corporation of India: The Corporation was incorporated in 1971. Its primary functions include export of value added tea, distribution of tea in the domestic market and management of some tea gardens and tea warehouses. TTCI has emerged as the largest exporter of value-added tea from India. Its exporters during 1980-81 are expected to be about Rs. 24.50 crores as against Rs. 19.72 crores in 1979-80. The Corporation's widened export market now includes U.K. Belgium, Holland, France, West Germany, Denmark, Spain, Yugoslavia, Hungary, Poland, USSR, Libya, Saudia Arabia, Japan, Australia etc.

ECGC : The total value of business underwritten by the Export Credit and Guarantee Corporation Limited reached a new high of Rs. 4,699 crores in 1979 representing an increase of nearly 13 per cent over the previous year's figure of Rs. 4,149 crores. Of this, the value of exports covered under insurance policies and special schemes was Rs. 814

coffee
for
enjoyment

COFFEE BOARD

COFFEE BOARD, Bangalore

crores which is nearly one per cent more than the figure of Rs. 807 crores last year. The value of exports financed under guarantee issued to banks accounted for Rs. 3,885 crores as compared to Rs. 3,342 crores which is 16 per cent more than last years' figures.

Total amount of claims paid during 1979 was Rs. 7.71 crores as against Rs. 5.55 crores during 1978 which is 39 per cent more than last year's figure. The net claims paid during 1979 was Rs. 4.77 crores. Premium Income for the year ending December 1979 amounted to Rs. 6.44 crores which is 6 per cent higher as compared to the premium income of Rs. 6.26 crores in 1978. Income from interest or dividend on fixed deposits and Participation Certificates with banks, Units of Unit Trust of India and other investments and other miscellaneous income during the year amounted to Rs. 1.87 crores. After taking into account the previous year's reserve for unexpired risks' of Rs. 6.06 crores, the year ended with gross income of Rs. 14.57 crores. Total disbursement during the year amounted to Rs. 7.37 crores.

National Textile Corporation Limited: The National Textile Corporation Limited, (NTC) was started in October, 1968. It was initially concerned with the revival of sick textile mills whose management had been taken over by the Central Government. In 1974, 103 sick textile mills were nationalised and their ownership transferred to National Textile Corporation. In addition, NTC is managing eight textile mills, the management of which has been taken over by the Central Government. The installed capacity of these mills is about 3.2 million spindles (16 per cent of the industry) and 47,468 looms (23 per cent of the industry). About 1.9 lakh workers are employed in these mills (23 per cent of the industry).

With a view to ensuring effective management on decentralised basis, National Textile Corporation has formed 9 subsidiary Corporations with Headquarters at Delhi, Kanpur, Indore, Bombay (two subsidiaries), Ahmedabad, Calcutta, Bangalore and Coimbatore. The authorised capital of NTC which was Rs 10 crores in the beginning has been raised from time to time and it now stands at Rs. 210 crores. The paid-up capital of the Corporation as on date is Rs. 179.95 crores.

The production of market yarn and cloth by the NTC mills during 1979-80 was 65 million kgs. and 843 million metres respectively. The targets for 1980-81 have been fixed at 65 million kgs. of market yarn and 950 million meters of cloth. The production of cloth and market yarn during the first six months of the current financial year has been 34 million kgs. of yarn and 434 million meters of cloth. Until a year ago the NTC mills have been continuously incurring losses ever since they were nationalised. However due to various steps taken by the Corporation, these mills have started earning profit. During the first eight months of 1980-81, the NTC mills together earned a net profit of above Rs. 1.31 crores.

Handicrafts and Handlooms Export Corporation of India Limited: The Corporation is a wholly owned subsidiary of the State Trading Corporation of India Limited. This Corporation, set up in June, 1962, undertakes exports of handicrafts (including woollen carpets) handloom products (including ready-to-wear garments) and gold jewellery. The authorised capital of HHEC is Rs. 5 crores and paid-up capital is Rs. 4.52 crores. During 1979-80, the turnover of the Corporation was Rs. 27.58 crores. As against this, the turnover during the period January—December, 1980 amounted to Rs. 28.92 crores. The turnover of the Corporation includes domestic sales which reached Rs. 1.58 crores during January-December, 1980 as against Rs. 1.52 crores in 1979-80. During 1979-80, the Corporation suffered a loss of Rs. 1.47 crores. The results are expected to show a marginal improvement in 1980-81. Steps are being taken to set the Corporation on the road to profits as early as possible.

The Corporation recorded a turnover of Rs. 9.60 crores in carpets during 1979-80 and continues to be the single largest exporter of carpets from India for the seventh year in succession. The export of woollen carpets during January—December, 1980 amounted to Rs. 9.08 crores.

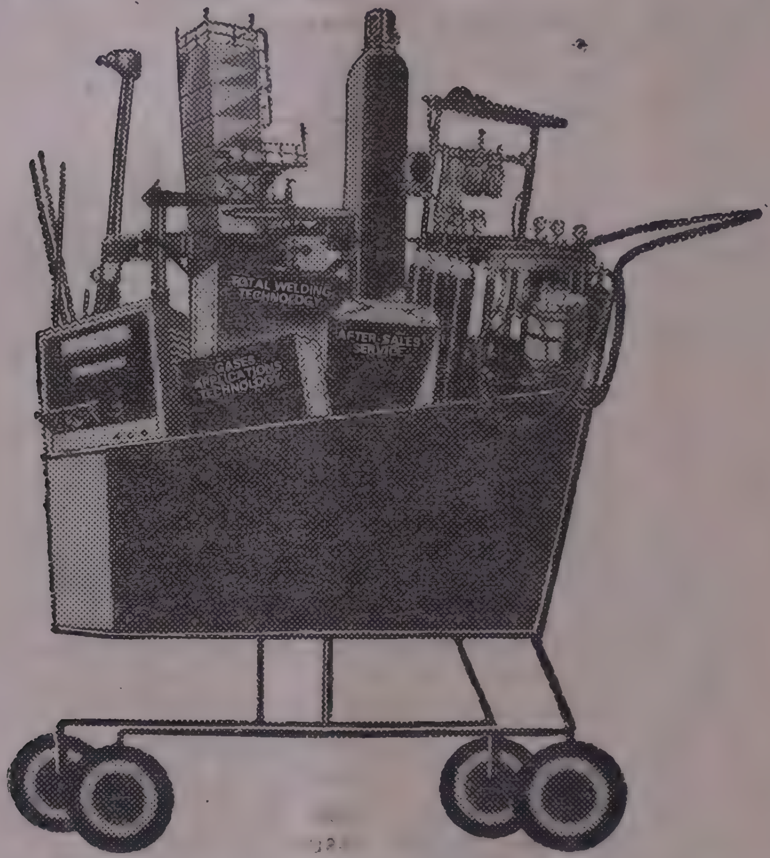
Export of handicrafts (other than carpets) touched Rs. 3.58 crores in 1979-80. During the year 1980-81 it is expected to be of the order of Rs. 7.20 crores. The export of handloom products (including ready-made garments) were of the order of Rs. 3.26 crores in 1979-80. This is expected to be about Rs. 2.80 crores in 1980 81. In order to obtain better margins a part of the business of Indian offices has now been transferred to New York Office. The export of ready-made garments during 1979-80 worked out to Rs. 2.91 crores. For January—December, 1980 this would be in the region of Rs. 2.93 crores. Quota restrictions imposed by foreign countries is a major constraint in this field. The scheme for export of gold jewellery was notified by the Government in October, 1980. The export of this item during 1979-80 (till January, 1980) was Rs. 3.49 crores. During 1980-81, it is expected to reach the figure of Rs. 5 crores.

Central Cottage Industries Corporation of India Ltd.: The Corporation is a wholly owned subsidiary of the Handicrafts and Handlooms Exports Corporation of India Ltd. It came into existance on February 4, 1976. The main objectives of the CCIC are to promote sales of the products of cottage industries and handicrafts in India and overseas and to assist development of the cottage industries. In 1979-80, the Corporation earned a profit of Rs.13.97 lakhs. In the year 1980-81, the profit is expected to be Rs. 2.45 lakhs after making provision of Rs. 13.00 lakhs on account of revision of pay structure and extension of other benefits to the employees. The turnover in 1980–81 is expected to reach Rs. 610.30 lakhs as against Rs. 532.89 lakhs during the year 1979-80. — *Excerpted from the Annual Report of Ministry of Commerce.*

NEW GENERAL MANAGER FOR ECGC

Mr. K. Gopalakrishnan, until recently Chief Regional Manager, State Bank of India, Shillong has taken over as General Manager of Export Credit & Guarantee Corporation from Mr. U. K. Sarma. He is on deputation from the State Bank of India. Mr. Sarma will be going back to the Reserve Bank of India on his promotion as Chief Officer.

THE TECHNOLOGISTS' SUPERMARKET



That's one way of describing the broad spectrum of IOL's technologies.

The technologists' supermarket is IOL where under one roof a wide range of products and services are available.

IOL's technological hamper includes gases for anaesthesia, welding, cutting, inerting, cryogenic applications and furnace enrichment; special gases for the electronics industry, for diving and off-shore operations, for metallurgy, calibration of instruments and research; anaesthetic equipment, welding and cutting equipment and consumables of every kind to meet needs as diverse as those from the wayside welder to the shipbuilder, the small tool manufacturer, the giant heavy engineering sector, petrochemical, fertiliser and refinery complexes plus entire gas plants, associated cryogenic equipment; and liquid oxygen explosives for mining.

IOL

Backing this hardware is a package of services–consultancy and advisory, after–sales, and training.

IOL's leadership in all its activities is the leadership of technology. Cross-fertilising latest trends with existing knowledge to breed a new generation of products and services. For progress.

IOL Indian Oxygen Limited

IOL offers the best in technology

M/GAS-7/80

Escorts Registers Modest Sales-growth

ESCORTS LIMITED has shown good results in 1980. The company's total income registered an increase from Rs. 188 crores in 1979 to Rs.202 crores in 1980. Inflation-induced cost escalation has however resulted in reduced pre-tax profit. From Rs. 16.63 crores, the profit it came down to Rs. 15.11 crores. The equity dividend is maintained at Rs. 2 per share. Owing to the stagnant conditions in the economy, the sales registered a modest growth rate of 8 per cent. This is partly explained by the set-back in the sales of ESCORT and FORD tractors during the year. This trend is reversed during 1981. There has been a rise in the sale of the company's RAJDOOT motorcycles from 41,012 units to 47,018 units. The company expects to produce a new motorbike based on Yamaha technology in 1982. The sales of piston assemblies improved from Rs. 18.90 crores to Rs. 19.39 crores. During the year, the company launched in the market a 5-tonne hydraulic mobile crane. It also introduced its new model tractor, ESCORT 345, during 1980.

Ashok Leyland Shows 33 p. c. Rise in Sales

DURING 1980, Ashok Leyland Limited registered an increase of 33 per cent in its sales. From Rs. 175.28 crores, they rose to Rs. 233.68 crores. The sales volume has shown a rise for the company's vehicles, engines and spare parts. The profit stood at Rs. 12.65 crores. The equity dividend has been stepped up from 17 per cent to 20 per cent. The company has started producing integral buses. It is also developing a new vehicle prime mover with turbocharged engine which can operate with a tandem-axle trailer. The company has secured a latter of intent for increasing the licensed capacity from 12,500 vehicles to 40,000 vehicles at its three new units located at Hosur (Tamil Nadu), Alwar (Rajasthan) Bhandara (Maharashtra).

Higher Turnover By Larsen and Toubro

Larsen and Toubro Limited has produced excellent results for the year ended March 31, 1981. The turnover and other income of the Company reached Rs. 149 crores as against Rs. 130 crores in the previous year. The profit before tax, at Rs. 21.70 crores is substantially higher than the previous year's figure of Rs. 15.77 crores. The figure of earnings per share has risen to Rs. 6.73 on the increased equity capital of Rs. 14.41 crores as against Rs. 6.14 on the equity capital of Rs. 12 97 crores. The Directors have decided to recommend dividend at 20 per cent on the increased equity capital of Rs.14.41 crores as against the dividend of 18 per cent in the previous year. The Directors have also decided to recommend the issue of bonus shares in the ratio of 3 : 5. The working results of the current year are favourable and show an improved performance over the corresponding period in the previous year.

Atul's Profit Shrinks Despit Higher Sales

ALTHOUGH the sales of Atul Products Limited during 1980 registered a rise from Rs. 61.38 crores to Rs. 63.65 crores, its gross profit showed a decline from Rs. 11.25 crores to Rs. 8.38 crores. Similarly, there was a fall in net profit, from Rs. 4.44 crores to Rs. 2.90 crores. The equity dividend is Rs. 20 per share. Cost-escalation could not be fully covered by the prices by the company's prodncts and full capacity utilisation was not possible due to the shortage of power and raw materials. Inspite of several adverse trends prevailing abroad, the company was able to step up its exports from Rs. 3.89 crores to Rs. 5.64 crores.

The company has commissioned its 32,050-tonne sulfuric acid plant and oleum plant and is in the process of implementing its other expansion projects. The company has received a letter of intent for the expansion of Dicalcium Phosphate from 1,000 to 1,500 tonnes per annum. This project will be implemented in 1981. The company has also received a licence for expanding the capacity of 32 per cent Hydrochloric Acid from 11,400 to 28,000 tonnes per annum. This project is expected to be commissioned in 1981. The company has also secured a letter of intent for expanding its Naphthols capacity to 800 tonnes per annum with a condition that the entire production of Napthols beyond 625 tonnes (which is the present licensed capacity of 500 tonnes + 25 per cent thereof) will be exported for a period of 10 years. Further, it has received a letter of intent for 50 tonnes of Tetradifon. Progress was also made in the implementation of Vanavil project. However, in view of the difficulties experienced by the dyestuff industry, it was decided to reassess the viability of the project.

Higher Turnover By Carborundum Univ.

CARBORUNDUM Universal Limited recorded higher sales and profit during the year ended August 31, 1980. The sales improved from Rs. 19.03 crores to Rs. 24.71 crores. The pre-tax profit rose from Rs. 2.46 crores to Rs. 3.14 crores. The equity dividend is 19 per cent. The company established its new manufacturing facility at Hosur. With more glass manufacturers ordering their requirements with the company, its capacity utilisation at Palghat has also improved. Its super refractories plant at Madras worked well. The company's export of bonded abrasives, aluminium oxide and calcinated bauxite is maintained at the previous year's levels.

Another Profitable Year For Kirloskar Bros.

During the year ended July 31, 1980 the turnover of Kirloskar Brothers Limited rose to Rs. 47.54 crores, against Rs. 35.58 crores 1978-79. The company's pre-tax profit also marginally improved from Rs. 79 lakhs to Rs. 83 lakhs. Equity dividend paid is at 13½ per cent. At Rs. 3.17 crores, the company's export sales were higher by Rs.85.73 lakhs than in the previous year. The company has received licence to manufacture hydraulic power transmitting and controlling equipment at its Karad factory. The company's joint ventures in Maritius and Kenya gave a good account of themselves.

National Rayon Earns Lower Profit

THE National Rayon Corporation Limited earned a lower-pre-tax profit of Rs. 9.09 crores in 1980, against Rs. 7.34 crores in 1979 despite the improvement in gross sales from Rs. 71.98 crores to Rs. 92.37 crores. The equity dividend is maintained at Rs. 25 per share. Production of rayon textile yarn during 1980 was 9,850 tonnes as against 9,064 tonnes during the previous year. Production of rayon tyre cord was 3,554 tonnes during 1980 against 4,308 tonnes in 1979. The decline in the production of rayon tyre cord was due to increasing preference for Nylon Tyre Cord by tyre companies. Sales of rayon textile yarn for 1980 was 9,807 tonnes against 8,810 tonnes during 1979. Sales of rayon tyre cord were 3,562 tonnes against 3.983 tonnes in 1979.

Good Results By Colgate-palmolive

The sales of Colgate-Palmolive (India) Limited during 1980 amounted to Rs. 50.02 crores against Rs. 48.63 crores in 1979. However, the company's pre-tax profit was a shade lower (Rs. 11.72 crores) than in 1979 (Rs. 11.83 crores). The after-tax profit was higher at Rs. 3.06 crores, against Rs. 2.78 crores in the previous year. The dividend adds up to Rs. 10.10 on a share of a book value of Rs. 30.15.

During 1980, the company made its entry into the field of synthetic detergents by marketing FAB Syndet cake in Tamil Nadu It has received a letter of intent from the Government for establishing an undertaking at Udaipur in Rajasthan for the manufacture of synthetic detergents with an annual capacity of 10,000 tonnes. Further, the company has also received registration from DGTD for setting up an undertaking at Ankleshwar (District Bharuch) in Gujarat, for the manufacture of toilet soaps with an annual capacity of 12,000 tonnes.

Falcon Tyres Records Increase in Sales

During the 18-month period ended December 31, 1980, Falcon Tyres Limited achieved a sales turnover of Rs. 8.68 crores against Rs. 4.14 crores in 1978-79 (12-month period). The company's net profit, after interest payment, stood at Rs. 1.08 crores against Rs. 8.84 lakh in 1978-79. In spite of the loss of production for 1½ months during January and February 1981 due to labour unrest, the company hopes to produce 7.5 lakh tyres, 6 lakh tubes and 6 lakh belts for the current year with an overall sales target of Rs. 12 crores. It will be able to achieve this in view of its expanded plant capacity to 8 lakh tyres and 8 lakh tubes.

The company has now finalised the plans for investing Rs. 1.20 crores in three phases which will raise the plant capacity to 1 million tyres and 1 million tubes by September 1981 with in-built infrastructure facilities for 2 million tyres and 2 million tubes. The company will be adding a further capacity for 2 lakh tyres and 2 lakh tubes during each financial year and hopes to achieve the 2 million target by 1985. Karnataka Scooters, which is in the process of being taken over by Falcon Tyres, proposes to manufacture a 50-cc mini-motorcycle in collaboration with the U. K. firm of BSA. The new product, initially put together with imported engines, will be launched in the third quarter of 1981.

Apollo Tyres Turns The corner

During the year ended October 30, 1980, Apollo Tyres Limited, which has its factory in Trichur, Kerala, has stepped up its turnover from Rs. 17.60 crores to Rs. 34.98 crores. There has been a steady improvement in capacity utilisation. From 42 per cent in 1978-79 it rose to 57 per cent in 1979-80. It was 76 per cent in October 1980. The operations, however, resulted in a loss of about Rs. 2.52 crores after payment of excise duty of Rs. 9.17 crores and provision for finance charges of Rs. 3.81 crores. Following the past practice, no provision for depreciation amounting to Rs. 2.66 crores for the year has been made in the accounts. The company has received Government's approval for enhancing the licensed capacity from 4 lakh tyres to 6 lakh tyres per year.

Difficult Year For Cadbury India

Considering that the working of Cadbury India Limited was affected by a strike lasting for more than six months in 1980, the company's performance can be said to be satisfactory. Sales were down from Rs. 23.34 crores to Rs. 19.28 crores while pre-tax profit declined by 68 per cent, from Rs. 1.81 crores to Rs. 58.25 lakhs. The recommended dividend is 60 paise per share. In spite of the prolonged strike, the company was able to step up its exports from Rs. 3.06 crores in 1979 to Rs. 3.41 crores in 1980.

The company's efforts at increasing the indigenous supply of cocoa beans have met with success. In 1980, as much as 80 per cent of its requirements (351 tonnes) were met within the country. The position is expected to improve further in 1981. The company's Apple Juice Concentrate Project at Kashmir was inaugurated on schedule by Chief Minister Sheikh Abdullah, in September 1980.

SOUTHERN
ECONOMIST
July 1, 1981

CONTENTS

EDITORIALS 1
India, Pakistan and China ;
Tamil Problem in Sri Lanka ;
North-South Dialogue
CURRENT TOPICS 3
Trade with EEC ;
New Policy for Health ;
India and United States ;
Future of Car Units
A Rallying Point for Socialists 6
By K. N. S.
GLASS HOUSE GOSSIP 7
SPECIAL ARTICLES 9
Some Reflections on the 'New International Economic Order'
By L. S. Singh
Growth of India's Joint Ventures Abroad: Implications for Technology Transfer
By S. A. Anwar
Japanese Economic Miracle Explained
By T. Diwakara Rao
Economic Development of Jammu and Kashmir: Centre's Contribution
BANKING WORLD 21
Another Successful Year for SBI
BOOK REVIEWS 23
CHAIRMAN'S SPEECH 25
Hindustan Lever Limited
COMPANY NOTES 32
TISCO ; Gammon India ; Food Specialities ; Tribeni Tissues ; Kamani Engineering; BASF India ; Automobile Products; Fibreglass Pilkington ; Cable Corporation; Duncan Brothers ; Herdillia Chemicals ; Blue Star

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone : 52330

Published on
1st and 15th of every month

Subscription Rates :
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

India, Pakistan and China

INDIA'S efforts to open a serious dialogue with the two neighbouring nations, namely, Pakistan and China, has caused many eye-brows to be raised in Washington and Moscow. This is not surprising when one considers that meddling by the super powers in the affairs of the South Asian countries has been a major cause of discord among these nations. This is particularly true of Pakistan which has become a huge receptacle for U. S. arms. To a lesser extent, this is also true of China which is being encouraged to purchase a wide variety of arms from the United States. These are not the type of arms which can be effectively deployed while defending oneself against possible aggression by a super power—Russia in this instance. As such, the arming of Pakistan and China cannot but have serious implications for India's own defences.

It is against this background that one has to view the recent high level exchanges between India and Pakistan on the one hand and between India and China on the other. Although these exchanges did not yield positive results, they have greatly helped in getting a clearer understanding of several bilateral issues. After all, these are the only two countries with which India had to wage wars, after it attained independence, and any new move which helps in bringing these erstwhile adversaries a little closer needs to be welcomed. Discussions between India's External Affairs Minister, Mr. P. V. Narasimha Rao and his Pakistani counterpart, Mr. Agha Shahi, went off well but euphoria over the success of the Islamabad meeting proved to be short-lived. Within a week of this meeting, Mr. Agha Shahi went to Washington and, to India's surprise, clinched a deal for the supply of arms worth $ 3 billion, not including the supply of an unspecified number of F-16 aircraft. A fortnight later, Pakistan's budget for 1981-82, unveiled by its Finance Minister, revealed that one-fourth of the budget, amounting to some $ 6.76 billion, is ear-marked for defence. Pakistan's profession of peaceful intentions cannot but be taken at its face value when it is evident that (a) she is being used as a client state by a super power which has its own designs in the South Asian region and (b) Pakistan has access to sizable funds in the Arab countries which seek to use this country as an experimental ground for many of their Pan-Islamic projects. India remains far from convinced by Pakistan's plea that the military build-up is directed at a possible incursion from the Afghan side. Afghanistan being virtually an occupied country, Afghan invasion can only be a euphemism for Soviet invasion. And, it is difficult to imagine that in the event of a Russian invasion, the hardware that Pakistan has acquired from the United States will be adequate to repel such an aggression.

The outcome of the ministerial level discussions between India and China was no less hazy. Even so, to the extent that it has led to a de-freezing of the border issue, it can be said that the Rao-Hua talks represented a positive improvement in the relations between the two countries. Here again, the global designs of super powers stand in the way of the two countries getting closer. A Sino-Indian understanding will not be to the liking of Russia which is keen on isolating China—her arch enemy. Similarly an understanding between New Delhi and Beijing will upset the calculations of the United States which sees advantage in keeping both Pakistan and China away from India. Although the Americans consider India as a friendly nation, they are likely to side with the Pakistanis and the Chinese on crucial issues.

So far as the border issue is concerned, it is true that India has resiled from the position that there can be no negotiations until China vacates the aggression she committed in 1962. But, at the same time, she considers it absurd to start on the basis of a barter deal which allows the aggressor to keep part of the territory it has annexed in exchange for another chunk of the annexed territory. Once it is recognised that countries have settled borders—and any violation of these borders amount to aggression —then a "re-opening" of the border issue does not arise. Thus, any further discussions on the border issue, as envisaged during the Rao-Hua talks, will be an exercise in futility. Negotiation after annexation is like putting the cart before the horse. A precondition for a renewal of friendship is for the other chap to return what he has robbed from you. Under the present circumstances, the only realistic stand that India can take *vis a vis* the border issue is to remain on the friendliest terms with China and, at the same time, hope to get back the lost territory through diplomacy if possible and through force if necessary.

Tamil Problem in Sri Lanka

IN Sri Lanka, the Tamil United Liberation Front is on war path. The Tamil-speaking people of the northern province of Jaffna have been sulking for many years now—the 1979 riots resulted in 130 deaths—and the police excesses of last month proved to be the proverbial last straw. TULF is now trying to blow it up into an international issue. Its leader, A.P. Amritalingam, has gone so far as to invoke the intervention of the U.N. Human Rights Commission. He has also urged a visit by the Amnesty International — a U.K.–based organisation which espouses the cause of the oppressed minorities.

How touchy the United National Party Government is over these developments may gauged from President Jayawardene's sharp reactions to the views on the Tamil question, expressed by some British M.P.s recently. He curtly asked them to ponder the Ulster problem nearer home instead of dabbling in the affairs of other countries. One wished that Mr. Jayawardene had not brought in the Ulster parallel. There, the demand is for the northern part to merge in the rest of Ireland, seceding from Britain. In Sri Lanka, the demand is for the Tamil-speaking area of the north to secede from the Island republic.

While there is widespread sympathy for the Tamils' demand for greater automony, not many outside the island will go all the way with the "Eelam" fundamentalists in their demand for separation. New Delhi has always exerted a sobering influence on the Tamils in Sri Lanka and has discouraged separatist movements there, in the same manner that it has opposed the Dravidian separatist cry in our own Tamil Nadu. Airing the Sri Lanka Tamils' problems in international forums could help in bringing pressure on the Jayawardene Government to widen the scope of their autonomy but internationalising what is basically a domestic issue hardly serves the cause which is dear to the hearts of the TULF leaders. Their demand for stern action against those who are responsible for last month's police excesses in Jaffna should be matched by an earnest effort to discipline Tamil hotheads who have elevated terrorism to the status of a cult.

North-South Dialogue

THREE factors, namely, the unmanageable size of the deficits of non-petroleum exporting developing countries, increasing protectionism among the industrialised nations and the shrinkage in the volume of funds available for providing aid have lent special urgency for a resumption of the North-South dialogue. Although the publication of the Brandt Report has opened the eyes of the richer nations, it has not led to any positive action by them. It is in this context that the LDCs are looking to the forthcoming Mexico "summit". The conference of the leaders of the North and the South is scheduled to be held in October. One may hope that the exchanges at this meeting will prompt the developed countries to (a) adopt more helpful trading policies to encourage the exports of the LDCs; (b) increase the quantum of aid while liberalising its terms and (c) extend a larger measure of support to international agencies like IMF and the World Bank so that they can widen the scope of their operations. They will also do well to bring about a deceleration of the arms race — they spent nearly 700 billion dollars on it in 1980 — so that they will have more to spend on development assistance.

MID-YEAR SURVEY OF BANKING

The July 15 issue of *Southern Economist* will contain our Mid-Year Survey of Banking. The Survey contains, besides articles on various aspects of banking, an interview with leading bankers.

— PUBLISHER

CURRENT TOPICS

Fresh Impetus to Trade with EEC

THE new Commercial Cooperation Agreement signed on June 23 in Luxembourg between India and the European Economic Community is more broad-based than the one which was initialed in 1973 and was in force till the new agreement came into effect. It shows a keen appreciation of the hurdles that India encounters in exporting her products to Common Market countries but the CCA has its limitations in view of the high rate of unemployment prevailing in many of the EEC countries and the cry for protectionism that it has triggered there.

A look at the trade figures reveals the nature of the uphill task that India faces. Out of India's global exports of Rs. 6,426 crores in 1979-80, the community absorbed Rs. 1,682 crores worth of goods. Again, out of India's total imports worth Rs. 8,687 crores, the community accounted for Rs. 2,120 crores. There was thus a deficit of Rs. 438 crores in India's trade with the EEC countries in 1979-80. The following table gives country-wise figures for exports to, and imports from EEC in 1979-80:

(Rs. crores)

Country	Exports	Imports
Belgium	159	266
Denmark	30	15
France	179	187
West Germany	365	644
Italy	221	175
Netherlands	228	157
Ireland	24	9
U.K.	473	663
Luxembourg	(Neg.)	(Neg.)

These figures reveal that, in the countries where India is running a sizable trade deficit, there should be special efforts to step up exports both by taking advantage of the Generalised Scheme of Preferences and by improving the quality of the goods exported to these countries. To a large extent, these efforts lie outside the purview of the Commercial and Economic Cooperation Agreement. In the past, India's problems were aggravated by the preferences enjoyed by the former colonies of the EEC member-countries but the situation has improved somewhat with Britain's entry into the community. One may hope that, under the new agreement, India will get a fairer treatment both in respect of the export of un-manufactured tobacco and textiles. As for textiles, India has been demanding the facility of quota transferability among the EEC countries.

What is needed today is more vigorous export efforts, particularly in countries with whom India is running a sizable deficit. While state trading organisations like STC can do much to improve the country's export performance, a great responsibility rests with our leading industrial firms for producing goods of quality and streamlining their marketing methods. Under the Indo-EEC Trade Promotion Programme, a number of steps have already been taken by both sides to ensure India's participation in trade fairs and to provide know-how in the areas of export production and marketing. It has also enabled the visits of trade delegations to and from the EEC. The setting up of the India Trade Centre at Brussels last year has given a special fillip to the promotion of India's exports to this region. The Centre is primarily acting as a clearing house of information which is of use both to Indian exporters and their European counterpart. How the Indian exporters will take advantange of these facilities to step up exports under the revised CCA remains to be seen.

New Policy For Health, Family Welfare

THERE is nothing new about the national health, population and medical education policies approved at the joint conference of the Central Councils of health and family welfare which concluded on June 17. The fact that it was addressed by the Prime Minister however underscores the special importance that the Government attaches to the subject. What is most worrisome is the slackening of the family planning effort which had gathered momentum in the early seventies. The unacceptably high rate of population growth revealed in the 1981 census has lent special urgency to the need for bringing about a deceleration in this increase. Apart from approving draft policies, the conference recommended the setting up of a Medical and Health Education Commission and endorsed the Prime Minister's suggestion for forming a Family Welfare Advisory Board. The setting up of a commission, in particular, should result in halting the declining standards in medical education and in preventing the proliferation of institutions subsisting on capitation fees. The creation of an advisory board to monitor the progress of family planning programmes is also a step in the right direction.

Broadly, the conference endorsed the goals set by the Planning Commission: Bringing down the net reproduction rate to one per cent from the present level of 1.67 per cent by 2001 AD; reducing the average size of the family from 4.2 children to 2.3 childeren; reducing the birth rate per 1000 population from 33 in 1978 to 21; reducing the death rate from about 14 in 1978 to 9; cutting down the infant mortality rate from 129 to 60 or less; raising the percentage of eligible couples protected with family planning from 22 per cent at present to 60 per cent. Considering that a sizable outlay of Rs. 1,010 crores has been provided in the Sixth Plan, one can be sanguine that a real beginning will be made during this period in the direction of reducing the growth rate of population which holds the key to the economic betterment of our people.

It is pointless to argue, as the Health Minister, Mr. Shankaranand did, that the family planning programme received a setback during the Janata regime. The simple truth is that, during 1975 and 1976, those who administered the programme tried to over-do it by creating a fear psychosis and through the misuse of the official machinery. Inevitably, this created a general resistance among the people to birth control devices like vascectomy, sterilisation and so on. There is a grain of truth in the assertion of many that it was *nasbandi* which caused a complete swing of the pendulum in the 1977 elections. The Janata government could not possibly have made much headway in the face of such widespread psychological resistance.

So far as health care is concerned, the conference adopted the pragmatic approach hinted at by Mrs. Gandhi. The approach shifts the emphasis from curative aspect to preventive aspect and the new policy is patterned along the lines of the Alma Ata declaration (health for all by 2000 AD) adopted in 1977. Since a general improvement in the health of our people hinges on an improvement in the water supply and sanitation facilities, emphasis will be laid on these schemes. There will also be some change in the approach to rural health. The scheme of "community health volunteers" will be replaced by "health guides" scheme which gives special leverage to women volunteers.

The implementation of the new programme is expected to result in a marked improvement in doctor-population and the bed-population ratios. The Sixth Plan provides a not–too-niggardly sum of Rs. 1,821 crores for these programmes. The major hurdle is not, however, one of finance but of how to remove the general apathy of the people towards public health. Side by side with an improvement in health facilities (more drugs, more health centres, more doctors and nurses and so on) there is need for a general awakening among our people to the need to cultivate hygienic habits and to live in a healthy enviornment. Up to a point, it can be conceded that ill-health is a function of poverty but, as the example of Kerala State has shown, it is possible for the poor to remain clean and healthy, subject of course, to nutritional limitations.

Economic Cooperation With United States

ECONOMIC Cooperation between India and United States consists of (a) the exchange of goods and (b) the American investment in Indian ventures. In both these areas, there is scope for improvement. What the United States imports from India has declined over the decades. From 2.65 per cent in 1951, U.S. imports from India (as a share in her total imports) declined to a mere half per cent in 1979. Although the aggregate trade between the two countries improved from $ 1.9 billion to $ 2.8 billion, the improvement is mainly accounted for by the rise in U. S. exports. U. S private investment in India, at $ 351 million, represents only one-fifth of one per cent of the total American investment.

It is not surprising, therefore, that the India U.S. Business Council, which held its sixth annual meeting at Washington on June 23, mainly focussed on these areas. It is presumed that India's spokesmen highlighted, at this meeting, the widening trade gap with the U. S. and urged a more favourable treatment to our exports. With unemployment running high in the United States, there is resistance to providing easier access to Indian goods. Efforts to step up exports are often frustrated through the imposition of quantitative and qualitative restrictions, since this can be done without violating the GATT rules.

It was, however, on the investment side that there was animated discussion, at the Council's meeting. The spokesman of American business, Mr. Orville Freeman, repeated two complaints, which are by now familiar to the Indians, namely, that the Indian tax rates constitute a major deterrent to investment and that FERA (Foreign Exchange Regulation Act) remains a bugbear to those who wish to start industrial ventures in India. But, as Mr. Freeman himself conceded, on the basis of a study sponsored by the Indo-American Chamber, the firms with U. S. equity holding have not done too badly in India. The study of the performance of the 30 companies having U. S. collaboration shows that during the period, 1970-80, their sales recorded a compounded growth rate of 16 per cent, gross profits of 15.2 per cent, dividend of 19 per cent and retained earnings of 17.8 per cent. This shows that neither FERA nor the high level of corporate taxation has come in the way of these companies with American collaboration showing good results. This may be explained by the fact that (a) the Indian tax system allows a number of investment incentives which, if availed of wisely, will reduce tax liability and (b) the huge domestic market is in a position to absorb whatever is produced in the country.

The meeting also focussed on another subject, namely, the setting up of Indo-U. S. joint ventures in West Asian countries. Despite keen competition from South Korea and other Far Eastern countries, Indian firms operating in Arab countries have done fairly well. Quite often, they fail to make an impact because of the shortage of capital in required volume. It is here that involvement of the Americans can provide the missing ingredient.

Automobiles: New Models in Offing?

THERE are indications of a mild shake-up in the automobile industry— the units producing passenger cars—with a view to making them produce more modern vehicles. Whether these units will actually put through their modernisation programmes or whether they will continue wih their present antiquated, fuel-inefficient models depends on several imponderables one of which is the speed with which public sector Maruti project is executed. There is no immediate "threat" from Maruti since the Industry Ministry has not even made up its mind on who the collaborators will be.

The two leading manufacturers, Premier Automobiles and Hindustan Motors, have been allowed to up-date their models in collaboration with foreign firms. Premier's collaborators will be SEAT of Spain—a subsidiary of the Italian FIAT—and Hindustan Motors are going in for collaboration with Vauxhall of Britain. The Modernisation is expected to cost Rs. 15 crores to each of these concerns. While this is cheering news to the Indian buyers of cars, they will be probably in for a shock when they are shown the price-tag. Today, the price of a car in India, taxes included, is in the range of Rs. 70,000 and, assuming a price-escalation of some 15 per cent per annum and allowing for the cost of modernisation, the new cars may well cost, on a conservative reckoning, Rs. 1 lakh a unit. The private sector producers will have reason to fear that there will be market resistance since at that price, the car will have gone beyond the reach of even the upper middle class. The Government's thinking on the subject is set forth in the Industry Ministry's Annual Report for 1980-81:

> Government are aware of the compelling need to modernise the automotive industry so that cars manufactured in the country confirm to contemporary international standards of fuel efficiency, design and performance. The existing state of art of the industry can only tend to have a dampening effect and lead to stagnation of technology in a large number of vital industrial sectors, small, medium and large which are linked to the passenger car industry. The multiplier effect of an automobile unit in generating employment and industrialisation is more than twenty fold. Government has, therefore, decided to establish a passenger car manufacturing unit with a capacity of about 1,00,000 passenger cars and about 40,000 commercial vehicles per annum, based on the latest technology and to cater to internal and export markets. It is expected that this decision will create an imitation effect and induce similar responses at modernisation and technological advancement in the existing car manufacturing units.

Under the conditions prevailing in India, it is hardly likely that the "imitation effect" will induce the private sector firms to bring about improvements in their designs. The chances are that, faced by competition which they cannot stand up to, they will stop manufacturing cars all together and switch to other items in the automobile line. This will not happen if the Government decides to drastically reduce the excise duty on cars—a measure which necessitates a drastic change in the plan priorities.

Maruti itself is facing several problems which need to be sorted out before its management decides on the level of production, choice of the model and the price of its car on the road. Already, the President of the Italian firm of FIAT, who was shown the Maruti site and was appraised of the likely dimensions of the project, has thrown a damper by questioning the viability of the project. Although many leading foreign firms like British Leyland, Renault of France, Volkswagen of West Germany and Nissan of Japan are reported to have evinced interest in Maruti, they have not quite succeeded in solving the typical Indian riddles. If the emphasis is on fuel-efficiency and quality, the project will have to be integrated vertically since the local ancillary units may not come up to the required standards. And, as experience has shown, vertical integration will unncessarily boost the cost. Under these adverse cost conditions, many of these foreign firms may doubt if it will be possible to export part of what is produced at Maruti. Probably, some of them can be coaxed into joining hands with Maruti if the Government agrees to waive the buy-back stipulation. The problem, surely, is not one of a lack of demand. A look at the manner in which even second-hand vehicles are purchased often at the price of a new vehicle, will convince one of the existing back log of demand. But much depends on the price at which Maruti will market its product. Assuming that the level of taxation will remain the same, Maruti is unlikely to market its car at less than a lakh of rupees in 1985.

A Rallying Point for Socialists

By K. N. S.

IF I see special significance in Francois Mitterand's election as the new President of France, it is not because of the surprise element in the choice of the French voters but because it gives a sense of direction to the democratic left all the world over. Britain and France have long remained the fertile breeding ground of liberal and progressive ideas. To a large extent, democratic socialism took shape in Britain and the rest of the world drew its inspiration from the British socialists. For several reasons, which include the excessive militancy of the trade unions, the socialist movement in Britain today remains split, as is evident from the formation of the new party, SDP, under the leadership of the "gang of four".

While these new developments in Britain are watched with interest, the spotlight has definitely shifted to the French political scene. It is only in France that the general public has shown a decided preference for democratic socialism and have rejected, at the same time, the ideologies of the extreme right (Gaullism of varying hues) and of the extreme left (communism). They not only elected a socialist president but also made their choice more meaningful by providing him a comfortable majority in the national assembly. It is very tempting to speculate on how Mr. Mitterand will use the near-dictatorial powers conferred on him by the French electorate, but I shall, in this piece, confine myself to the impact of the Mitterand victory on the future of the socialist movement in the world.

What is the post-war record of democratic socialism? In East Europe and Russia, communism retains its hold. In Western Europe, it has been generally a case of power alternating between left-of-the centre parties and rightist parties. Wherever social security measures are implemented in a comprehensive manner, as in the Scandinavian countries, in Britain and in West Germany, socialism retains its appeal although the people may have voted socialist governments out of power, for a change. While high standards of living prevailing in these countries have prevented the communist parties from coming to power, they enjoy a dominant position among organised labour. particularly in France and Italy.

The prevailing high rates of unemployment in some of these countries have added to the negative appeal of the communist parties. Those which have distanced themselves from Russia, like the Italian and Spanish parties, have improved their electoral appeal while the parties that toe the Moscow-line, like the French Communist Party, are becoming less popular. This is explained by the poor performance of the communists in the recent presidential and parliamentary elections in France. In the voters' scale of preferences, Eurocommunism is preferred to orthodox communism and Eurosocialism is preferred to Eurocommunism.

The turn of the tide in favour of democratic socialism is helped by two factors, namely, (a) the concern of the intelligentsia over the hawkish policies of the Reaganite Republicans in the United States and (b) the reckless manner in which the communist rulers in the Kremlin are expanding their sphere of influence. The proxy wars they often launch through client nations—Cuba in the West and Viet Nam in the East — and their direct intervention, as in Afghanistan, seem to have alienated the Russians from some of the nations which are engaged in liberation struggles. Many leading Third World countries are growing increasingly sceptical of the advantage of aligning themselves with one of the super powers. The failure of the monetarist experiment in Britain and in some of the Latin American countries has also lent special urgency to the search for a new approach which eschews *laissez faire* on the one hand and undiluted statism on the other.

It is precisely at this moment that the French have put into power a socialist who has the will—and the necessary popular backing—to put through a genuinely socialist programme aimed at a widening of the coverage of welfare measures, increasing the wages of the workers and at nationalising more industries. The demonstration-effect of the socialistic experiment in France will prod other nations, both in Western Europe and in the Third World, to consider opting for the socialist alternative. This may first happen in Western Europe where the appeal of doctrinaire communism is losing its force. In the next elections, when they are held, one can be sanguine that the Anglo Saxon, the Nordic and the Balkan peoples will vote for left-of-the centre parties. The Warsaw Pact countries on the periphery, notably Poland, Czechoslovakia, Hungary and Rumania, will not remain uninfluenced by the new socialist wave in Western Europe.

The political systems in the Third World countries are so fragile — and the popular mood is so suceptible to external influence — that the socialist alternative is unlikely to make an impression, in the short run. Even so, the "ballot revolution" in France constitutes a turning point in the history of the world socialist movement. With radical theoreticians like Regis Debray playing an important advisory role in the Elysee Palace, President Mitterand can be expected to give a positive lead to the peoples of the Third World, in their search for new values.

Glass House Gossip

THE Chief Election Commissioner, I think, was right in ordering a re-poll in the Garhwal Lok Sabha constituency where a candidate of the oppsition, Mr. H. N. Bahuguna, had complained of rigging, booth capturing and other malpractices allegedly indulged in by the ruling party, viz , Congress (I). I do not know if these allegations have been proved but the action of Mr. Shakder—he is the Chief Election Commissioner—is based on a relatively minor impropriety, namely, the induction of police from other neighbouring states for election duty in the Garhwal constituency in U. P. While the ruling party has not challenged Mr. Shakder's order, its leading lights have not taken kindly to the idea of re-poll. Besides, the U. P. Government has expressed doubts over the legality of the Commissioner's decision.

My own view is that a controversy could well have been avoided if Congress (I) had conducted its election campaign in a low key. Instead, it indulged in "over-kill", which was not necessary even granting that Mr. Bahuguna would have snatched away the Garhwal seat. I would even go a step further and say that the party could well have shown magnanimity by not putting up a candidate against Mr. Bahuguna who had won with a thumping majority in that constituency, in the 1980 general elections.

Whether a re-poll will help Mr. Bahuguna or the Congress (I) nominee, I am not sure. Since it has become an issue of prestige for Mrs. Gandhi, she can be expected to deploy all the resources at her command to get her rival defeated. Mr. Bahuguna, who had demanded a re-poll only in 56 booths, has his own reasons to think that the re-poll order covering the entire constituency may help the ruling party's candidate. Mrs. Gandhi also has reason to be touchy about elections disputes because it was one such dispute which triggered a political storm in 1975. I am referring to the judgement of the Allahabad High Court.

□ □ □

ON the day I read Mr. Arun Shourie's account of his lunch with the Karnataka Chief Minister, Mr. R. Gundu Rao (*Sunday*, June 14, 1981) I had never imagined that it would cause a political furore both in the state capital and in New Delhi. Being discreet is not one of Mr. Gundu Rao's endearing traits but, considering that his Press Secretary was also present during the lunch, Mr. Shourie could well have been told, at the time of bidding good bye, that the whole thing may please be treated as "off the record". Since neither the Chief Minister nor his Press Secretary said anything of the kind, Mr. Shourie must have felt that the conversation could as well be published.

Furthermore, considering that the Chief Reporter of *Indian Express* was also present during the lunch—Mr. Shourie is the Executive Editor of the paper—it was quite obvious that the lunch encounter was not intended to be completely "off the record". The kind of "copy'' that a formal interview would have yielded is quite different from the *pot pourri* of reactions that Mr. Shourie got from the Chief Minister in response to his random questioning. He could as well have forgotten all about the lunch by the time he was back at his desk in Delhi. Alternatively, Mr. Shourie could have used it in his own paper instead of passing on the luncheon piece to *Sunday*.

That Mr. Gundu Rao had to do a lot of explaining over the Shourie piece was only to be expected. If only Mr. Rao had confined his uncomplimentary remarks to those who have fallen from grace, it would not have mattered at all. Mrs. Gandhi has a lot of uncouth chaps in her party — Antulay, Makwana, Stephen *et al* — and she often enjoys reading about their verbal excesses. But during the lunch conversation with Mr. Shourie, Mr. Gundu Rao has dropped too many names — and names that must be uttered only in hushed tonnes. Imagine the amount of squealing it would cause when a giant of a man treads on tender corns.

At one stroke, he has antagonised a hoarde of Congress (I) big wigs — not excluding powerful central ministers and state chief ministers. Mr. Rao is making enemies at a fast rate. After reading what he said in his conversation with Mr. Shourie, Mrs. Gandhi is hardly likely to "give him the keys and go to sleep." She will probably disillusion him of the notion that he is the only Congress (I) leader in the South who can be depended upon. She will make him realise that the theory of indispensability does not apply to ordinary mortals, that is to say, everybody except herself. Even granting that the Prime Minister will overlook his verbal indiscretions this time, Mr. Gundu Rao will have a hard time facing the opposition onslaught over the scandals surrounding his colleague, Mr. C. M. Ibrahim and the furore raised over Mr. F. M. Khan's display of rudeness to the city police. From the way things are developing, it looks as if the Karnataka Chief Minister is painting himself into a corner.

□ □ □

Mr. Yeshwantrao Chavan's "home coming" has not materialised, as yet. He is in the position of a *yatrik* who has left his home on a pilgrimage and got stranded mid-way owing to a train accident. Until a relief train comes to pick up Mr. Chavan — and other stranded pilgrims — there will be nothing to do except to wait and chant *bhajans*. Mrs. Indira Gandhi whose encouraging feelers made Mr. Chavan quit Congress (U) in an unseemly hurry, seems to have suddenly turned cool towards the defectors. Mr. Chavan's misery is compounded by the fact that his protege, Mr. Sharad Pawar, is in no mood to desert Congress (U) to join Mrs. Gandhi's party. What will ultimately happen to Congress (U) is anybody's guess but the process of disintegration has not been in conformity with Mr. Chavan's time-table.

At least in the case of Mr. Bahuguna, it can be said that he was welcomed (by Mrs. Gandhi and a repentant Sanjay) with some amount of warmth. Disillusionment was to come later. But Mr. Chavan's "home-coming" is shorn of all such drama. Opposition to Mr. Chavan's entry into Congress (I) is mounting within Mr. Chavan's own Maratha lobby and I am not ever sure if the Congress (I) working committee, which is meeting next month to consider Mr. Chavan's admission, will open the party's doors to him. I have a theory to explain Chavanism : Mrs. Gandhi is growing old and the succession battle, with Rajiv as the figure-head, is sure to commence sooner or latter. Since the party has no leader of all-India stature, there is a fair chance of some one like Mr. Yeshwantrao Chavan being accepted as the *de facto* Prime Minister.

Could it be that Mr. Chavan has drawn his inspiration from the history of his own state ? In the history of Maharashtra, there is no dearth of instances in which the chief adviser to the ruler successfully intrigues to usurp the throne. Some one ill-disposted towards Mr. Chavan must have reminded the Prime Minister of such possibilities. In the event, Mr. Chavan's Trojan Horse seems to have got stuck outside the palace gates.

□ □ □

I AM no great admirer of Mr. S. K. Patil's political credo, but I must record, with profound regret, the passing of this Congress stalwart at the ripe age of 81. I must also state — again for record —that he was with Congress (I) at the time of his death. Basing his activities in his home ground, which was Bombay, Mr. Patil earned an unrivalled — unrivalled till persons like Rajni Patel took over that role — reputation as the Party's fund-raiser. The money bags of Bombay liked Mr. Patil because he never dangled the bugbear of socialism before them.

His rightist leanings did not handicap him in getting close to Nehru. His organising abilities greatly impressed Panditji. He was in the Nehru Cabinet for over 6 years, from 1957 to 1963 and held several important portfolios. He re-entered the government and served as Railway Minister between 1964 and 1967. In 1969, Mr. Patil ganged up with other "syndicate" stalwarts — Nijalingappa, Atulya Ghosh, Sanjiva Reddy and Moraji Desai, among others — to checkmate Mrs. Gandhi's plans to continue as the Prime Minister. For nearly a decade, Mr. Patil was, so to speak, in the wilderness. Disappointed with the shabby manner in which the Janata crowd treated him, Mr. Patil walked into Mrs. Gandhi's camp after the collapse of the Janata Government. But, by then, Mrs. Gandhi had no use for this veteran of the freedom struggle.

□ □ □

IRAN seems to be the only country in the world which, in addition to being at war with a neighbouring country, is at war with itself. The latest victim of Ayatollah Khomeini's fanaticism is Bani-Sadr who has been dismissed as President. Khomeini's mobs are after his blood. He is on the run, but if Bani-Sadr is unlucky enough to be caught before he crosses Iran's boundaries, he is sure to be executed by a firing squad after a show trial. Incidentally, Egypt has offered asylum for the deposed President but, at this writing, I am not sure if he will be able to make it. From the manner in which the Ayatollah is getting rid of all the moderates, Shapour Bhaktiar, Barzagan and now Bani-Sadr, I doubt if he is genuinely interested in rebuilding the strife-torn, war-ravaged country.

I do not see any hope for Iran so long as the orgy of fanatical killings go on. The big powers, who are only too eager to meddle in the affairs of the oil-producing countries, may take advantage of the prevailing turmoil in Iran to organise coups of one kind or anothers. For the average Iranian who has had enough, it hardly makes any difference whether the plotter is CIA or KGB. I am sorry for Iran. First it suffered under the leftist fanatic, Mossadegh. To some extent, it also suffered (SAVAK and all that) under the Shah's regime. Now, it is suffering under the misrule of the clergy headed by Ayatollah Khomeini.

— **Plebeian**

Some Reflections on the 'New International Economic Order'

By L. S. Singh *

The third world is waging a relentless battle against the inequalities in the distribution of wealth among the nations. They have also been demanding a fairer share in the world's exports and larger aid flow. These demands are often voiced through international organisations like UNCTAD. The United Nations has also set certain goals for achieving the "New International Economic Order". In this article, the author analyses the problems facing LDCs in progressing towards this goal.

I

ONE of the fundamental problems of the present day is the liquidation of underdevelopment, removal of economic disparities between countries, and the establishment of a new international economic and political order in conformity with the demands of historical development and the aspirations of peoples to live in a better and more just world in which inequalities, domination and subordination will vanish. The old international economic order, with its whole theoretical and political arsenal, sank into serious crisis and there was no way out other than launching a new international economic order adopted by the general consensus of not only the developing but the developed world as well. In the interests of unfettering the further development of world production forces, the system of international economic relations had to be changed, and this has been done at the highest world level. The NIEO is thus a reaction by the South against a framework that has seemed inadequate to reflect the reality they faced and has seemed to serve best interests of the principal actors.[1]

The demand for the New International Economic Order is on the one hand an expression of changing power structures in the world; on the other, it is a way to transform these power structures even further. The economic development of the developing world, which is the keystone of the programme for the New International Economic Order is therefore not just an instrument of greater welfare or a means to the "satisfaction of basic needs"; it is essentially a demand for changes in the power structures through changes in economic structures of the world, that are being made.[2]

The non-aligned countries have managed to work out a comprehensive concept of fairer international economic relations as an action programme for resolving present acute problems, but they have also worked out, at least in principle, a vision of more long-range processes and changes. Here, each country should assume its share of the responsibility. And this is possible only if it is free and independent and it enjoys the elementary conditions for undisturbed socio-political, economic and cultural development. The development of this concept is as old as the non-aligned movement itself.

The 1961 Belgrade Conference of heads of state or government of non-aligned countries called for convening a world economic conference and appealed to the big powers to put an end to cold war policy and to resolve disputes by peaceful means. That conference was held three years later and the cold war policy was gradually replaced by the policy of relaxing tensions. The Summit Conference in Belgrade marked an important step forward in this direction and by the 1970 Summit at Lusaka, the foundations were laid for a more comprehensive concept. In Algiers, three years later, the earlier principal, documents were given concrete form in the Action Programme, which became the basis for the non-aligned countries activities in convening the IV Special Session of the UN General Assembly when the Declaration and Action Programme were passed for the establishment of a new international economic order.[3]

This order should create the basis for each nation's genuine independence, ensuring that each country can decide on its natural resources and on its income; that each country can freely, without discrimination, join in the international division of labour, have free access to the achievements of modern technology, that the less developed countries enjoy a more favourable position on the international market and thereby more easily withstand the pressures of competition from the products of advanced technology. Free control over natural resources means not only the right to make them national, i.e., no one can usurp them, but also that they cannot be the booty of the aggressiveness of imperialists concerns and monopolies or their speculations.

A just relationship must be established between the price of raw materials and that of industrial goods, the protection of raw

---

* Dr. Lal Sahab Singh is Lecturer in Economics in University of Bihar, Muzaffarpur.

materials producers must be organized, including the right to self-organization. These aims cannot be attained by merely making certain adjustments to the existing system of international economic relations or through unilateral concessions, exceptions in the present system which favour the developing countries. These relations must also be legally regulated, mutually binding and based on equality and respect for the reciprocity of interests. The struggle for a new international economic order cannot follow the logic offered by certain circles in the developed countries along the lines of: "you give — I give" and "give additional guarantees for my investments".

It is good thing that we are less and less witness to the practices of "give or I will take it myself". The developed countries, however, must abandon the practice of exporting their own inflation to the developing countries and shifting the effects of the crisis in their own system to the underdeveloped world.[4]

The non-aligned countries have developed basic principles for relying on resources, for establishing a new international economic order, both on a national and on an international scale. And here lies the crux of the problem. For if the aims and their scope are not clearly laid down and the tasks pin-pointed, it is difficult to ensure a clear orientation and the necessary unity of action.[5]

The basic purpose and aim of relying on one's own resources, as developed by the non-aligned countries and adopted by other developing countries organized within "Group 77" are three, firstly, to mobilize all material and human resources in the country for the purpose of development and emancipation; secondly, to promote all round economic co-operation among the developing countries with the goal of mutual assistance and development of each country's production forces and the production forces of all of them together and, thirdly, to develop co-operation with the developed countries with the aim of changing the world economic system in the interest of all. An integrated part of these activities is the search for one's own way and the development of social institutions based on specific features of individual countries.[6]

II

The classical theory of comparative costs, even with its neo-classical refinements, has long since been seriously compromised, even within the ranks of economists in the search for new strands in the development of economic thinking in regard to world economic relations. The assessment is unanimous that the old relations perpetuate and intensify inequalities in the distribution of world income, provoking and continuously deepening the crisis of the world economy.[7] It is evident that the crisis has reached its peak precisely in the most developed regions: for USA West, Europe and Japan, which account for more than 60 per cent of world income and less than 18 per cent of the world population whereas its consequences fall hardest upon developing world which imports inflation through high priced imports of goods essential for further development.

Earlier, a crisis would be attended by implementing prices, but in the present recession (which we might name recesoflation) the figures for unemployed are rising in stride. The working class pays a higher price for this paradox of our times than it paid for earlier economic crisis. In this way the intensified social component of the present crisis of the world economy, which began in 1974, has come to the fore. The emancipation of the exploited is only a part of the new international economic order. The other part involves the developed countries themselves for by holding prices for primary products at a low level and making access to their secondary product markets difficult for the developing countries they have reduced the purchasing power and development capabilities of these countries, and all at once found themselves jeopardised by this short-sighted economic policy. This is the genesis of the new international economic order.[8]

A developmental policy that fails to respect International consideration entails the negation of the global growth of the international economy and is pre-destined to failure. This is the reason for the collapse of the old theory which, through the concept of comparative costs, predicated adherence to a libral international economic policy, since supposedly in the opposite case the poor world would be to blame for their own poverty.[9] The entire trading and monetary system of the developed world collapsed because of this fatal fallacy. It must be cured then by starting from this fallacy, in the interest of all. The strategy has to rest on suitable analysis, that is, on theory. The old theory was refined over centuries while the new one has yet to be tested, not over a period of centuries but decades, because the overall dynamics of development of science above all, has became much faster. The specific challenge to the present order is in regard to six main components, i. e., commodity programme, trade, investment, aid and indebtedness, world monetary reform and technology transfer.

The greatest and the most significant achievement during the last decades has been the independence from colonial and alien domination of a large number of peoples and nations which has enabled them to become member of the community of free peoples. Technological progress has also been made in all spheres of economic activities in the last three decades, thus providing a solid potential for improving the well-being of all peoples. However, the remaining vestiges of colonial domination, foreign occupation, racial discrimination, aparthied and neo-colonialism in all its forms continue to be among the greatest obstacles to the full emancipation and progress of the developing countries and all the peoples involved. The benefits of technological progress are not shared equitably by all members of the international community. The developing countries which constitute 70 per cent of the world's population, account for only 30 per cent of the world's income.

It has been proved impossible to achieve a balanced development under the existing international order. The gap between the developed and the developing countries continues to widen in a system which was established at a time when most of the developing countries did not even exist as independent states.[10]

By transforming knowledge into technology, the developed countries could increases tremendously the productivity of human labour. The average citizen of the developed world today disposes of an equivalent of some 900 'shares' in the form of new technologies, energy and machinery. The very nature of modern technology is such that it is implicitly international and cannot be restricted to the country of the inventor. The revolution in transport technologies just as implicitely breaks isolation and brings the world into closer relationships. The industrilisation of the developing countries was therefore the product of a convergence of two different trends, the international character of modern technologies and the economic awakening of the developing countries after their liberation from colonial rule.[11]

The importance of changes which have occured during the last decade or two in the world economic structures was not realised until very recently. Just in past-history the industrial growth of the United States, Germany, the Soviet Union and Japan brought fundamental changes in the world power structure, so the growth of a number of developing countries today brings new worlds to knock at the door of the club which still holds the keys to world power and decision making.[12] The developing countries are no longer "hewers of wood and drawers of water".

Productivity growth in industrial countries, was no doubt made possible by structural adaptation which took place in their period of development, but during the rapid industrial and general economic growth of the 1950's and 1960's productivity in various industrial branches grew quite rapidly. The developed industrialised countries are confronted today with very serious structural problems concerning the future of their manufacturing industries during the past three decades. The laggard industries started losing ground not only in international competition but also in their own domestic markets, by protecting the non-productive and non-competitive production lines or branches with subsidies and inflation. The success achieved by developing countries in the expansion of their manufacturing capacity means that some sectors of industry in industrial countries are becoming unprofitable and should contract.[13] This has strengthened the demand for a new division of labour offering the developing world access to markets for the products of new, successful lines of production and give an impulse to structural transformation which is a condition of social change and economic prosperity.

There can be little doubt that the strategy of liberal trade contributed substantially to the high rate of economic growth in the post-war world, it provided large world markets and created the conditions for economies of sale and the intensive development and application of technologies, liberal trading possibilities created the economic climate for the expansion of transnational companies. The rate of growth of world trade over the last three decades has no precedent in history. In more than a century of world industrial expansion the rate of growth of international trade always lagged behind the rate of total production, but in the last three decades the trend has been exactly the opposite. World output has increased by an average annnal rate of 5 per cent while international trade has grown by more than 7 percent. The principal propulsive force of international trade throughout this recent period has been trade in manufactures, which in 1976 amounted to more than 58 per cent of total world exports. Over a long period of years preceeding the First World War, manufacture represented only one-third of total world trade. This share increased to some 38 per cent during the inter-war years. The highest point was reached in the post-war period in 1973 with 64 per cent of the total, and this was followed by a slight decline. But a contradictory phenomenon over the past three decades ever since the Brettonwoods deliberations has developed. Countries which exhibit from year to year an average of exports in certain industrial branch, at the same time increase their imports in the same branch.

As a result of this contradictory development, trade in manufactures becomes the dominant element in international trade exchanges and the share of manufactured imports in total domestic consumption in the developed industrial countries which was some 10 per cent after the Second World War has risen to more than 20 per cent today. These development at the same time created a new type of international economic interdependence among the developed countries: individual countries have been specialising in production and international trade in individual products rather than in branches, a trend which has made them at the same time less vulnerable and more economically independent.[14]

The awakening of the developing countries has led to the gradual establishment of their sovereignty over their territories and to economic development through industrialisation. While manufactures represented in 1955 only 13 per cent of total exports (other than fuel) from the developing countries, this share had increased to 20 per cent by 1967 and to 40 per cent by 1973. This change was even more marked among the developing countries themselves. During the period 1965-1973, the average annual rate of growth of exports of all products from the developing countries towards the developed countries was 15.3 per cent but for the traditional categories of food, agricultural materials, ores and metals the rates were generally less than 10 per cent per year, for fuels upto 20 per cent and for manufactured goods even 25.6 per cent.[15] Throughout the 1970s, manufactures accounted for more than one-third of the total increase in exports from the developing countries.

The share of the developing countries in total imports of manufactures from all countries of the world into the developed countries as a whole represents today only some 7.4 per cent while, for instance, the nine countries of the EEC export to the developing countries 50 billion dollars worth of manufactures annually they import than 11.7 billion dollars worth, which leaves the total balance of more than 38 billion dollars in favour of the former;

similarly, the United States exports twice the value of manufactures to the developing countries than it imports from them, and Japan exports more than 25 billion dollars worth, and its imports are valued at 3.6 billion dollars.

The protectionist hysteria is gaining momentum. Discussions are often conducted in complete disregard of the facts. Take for instance, the case of textiles; from 1972 to 1976 the exports of cloth from developed to developing countries increased from 2.4 to 4.6 billion dollars: the reverse flow of garments from the developing contries to the developed countries increased during the same period from 2.3 to 6 billion dollars. It seems to be more or less importing what they sent for further manufacturing to the developing countries. Machinery and transport equipment provide another example. According to the U. N. *Monthly Bulletin of Statistics*, (May 1977), the developing countries increased their imports of these goods from 23 billion dollars in 1971 to 73.1 billion dollars in 1975. At the same time, the value of exports of machinery and transport equipment from the developing countries has increased from 1.5 billion dollars to 6.7 billion dollars or less than 10 per cent of the value of imports. It is hard to visualize a future for the world economy and trade if one party wishes to arrogate to itself the right to export, and to keep the door closed to imports. GATT estimates that some 30 to 50 billion dollars worth of international trade is affected by protectionist measures.[16] An International Economic Order with a new rules for international trade is necessary if the world economy is to continue along its path of progress.

III

In order to realise the objectives of new international economic order, a struggle should be waged for the elimination of the vestiges of colonialism and all forms of domination, against the world's division into blocs and spheres of interests. This requires a special programme of action for developing a new international legal system and code for the achievements of anti-imperialist movements on the political and economic-financial-monetary plane, in transfer of science and technology, and that of developing on this basis, correspondingly initiatives both in one's own country and in international relations. The struggle for establishing a new international economic order is now being increasingly waged in such organisations as UNCTAD, GATT, IBRD, IMF and elsewhere. One of the most difficult problems that the developing countries have been facing in respect of technology is the choice of technology needed for their development. The pattern of investment and industrialisation are inseparable from the choice of technologies and vice-versa. The single most important conduit for the transfer of technology is the people coming out of what Tinbergen has called "third level education" namely the University or higher education. So long as technologists of developing countries are not given responsibility for developing a self-reliant autonomous industrial system, third level education will remain subservient to the prevailing order through imported technologies which in fact means abdiction of the right to exercise choice of technology. The developing economies should restructure an autonomous model both of education and economic development and then move towards building a link with the New International Economic Order.[17] The monopoly of technology processes by developed countries has led to several unsatisfactory features which call for immediate substantive and institutional remedial action.[18] The Brandt Commission has also contended that the more industrialised countries have to take a positive lead in this direction and should not regard the developing countries as a dumping ground for outmoded and ecologically harmful technology.

The developing world should not rely at all on import of technology, neither for the economy as a whole nor for particular sectors. It should instead develop its own technical solutions best suited to local needs in the productive sectors etc. The achievements in trade in manufactured products among the developing countries show the potentialities which exist for more intensive co-operation in in this field.

Developed countries should implement fully their international commitment to transfer 0.7 per cent of the G. N. P. for official assistance to developing countries and the most affected countries. Developed countries should also be urged to cancel debts of the least developed and other most affected developing countries and in particular those that have suffered from foreign occupation and aggressions.

REFERENCES

1. Albert Fishlow, Carlos F. Deaz-Alijandro, Richard R. Fagan, Roger D. Hansen, *Rich and Poor Nations in the World Economy*, 1980's Project/Council on Foreign Relations, Kalyani Publishers, New Delhi, 1978 vide article "A New International Economic Order: What Kind?, pp. 52-53.

2. Stanovnik, Janez, "Towards the New International Economic Order — Industrialisation", *Review of International Affairs*, Vol. XXIX, 667, January 20, 1978, Belgrade, p. 9.

3. Dr. Vratusa, Anton, " The Establishment of a New International Economic Order—A Global Interest", *Review of International Affairs*, op. cit., p. 7.

4, 5 & 6. Ibid.

7. Dr. Mrkusic, Zarko, "Scientific Approach to the New International Economic Order", *Review of International Affairs*, Vol. XXIX, 670, March 5, 1978, Belgrade, p. 33.

8. Ibid.

9. Ibid.

10. U.N.O., Sixth Special Session of the General Assembly, 1974.

11. Stanovnik, Janez, "Towards the New International Economic Order—Industrialisation", op. cit., p. 9.

12. Ibid., p. 10.

13. Ibid., p. 11.

14. Stanovnik, Janez, "Towards the New International Economic Order—Trade", *Review of International Affairs*, Vol. XXIX, 669, February 1978, Belgrade, p. 9.

15. UNCTAD, *Hand Book of International Trade and Development Statistics*, 1976, p. 90.

16. Ibid., p. 10.

17. Dr. Sethi, J.D., "Education and New International Economic Order", *Yojana*, Vol. XXIII/17-16 September 1979, p. 9.

18. *Fifth Conference of Heads of State or Government of Non-Aligned Countries*, Colombo, August 16-19, 1976, Economic Declarations.

Growth of India's Joint Ventures Abroad: Implications for Technology Transfer

By **S. A. Anwar** *

Although it cannot be said that joint ventures set up by Indian firms in foreign countries have been an unqualified success, they have proved that technology transfer from one developing country to another is not only feasible but also mutually advantageous. In this article, the author surveys the progress of Indian joint ventures abroad and debunks the notion that only developed countries are in a position to transfer technology to LDCs.

IN recent years, several countries of the Third World have emerged as investors of capital across their national frontiers, and their joint ventures abroad have been subjected to rigorous analysis in economic literature.[1] The available evidence relating to joint ventures undertaken by developing countries abroad indicates that (a) the countries that are quite active in establishing joint ventures abroad are Hong Kong, Singapore, India, and South Korea in Asia, and Argentina, Columbia, Mexico, Chile, and Brazil in Latin America, (b) there are few countries in the Third World which have gone beyond their neighbourhood or regions where they exist, and (c) a large number of enterprises of these countries are subsidiaries of multinational companies or those which are managed and/or controlled by big corporations of developed countries.

India seems to have established an impressive record of offering useful technology in the form of joint ventures abroad. Our purpose in this paper is to (a) present information relating to growth and pattern of India's joint ventures abroad (section I), and (b) discuss the implications of (a) for technology transfer (section II). Unless otherwise specified, the data presented in this paper are taken from the various publications of the Indian Investment Centre.

I

Until very recently, India was not a very large foreign investor owing to foreign exchange and official policy constraints operating in the country. The official policy is not unfavourable now and Indian firms are allowed to hold foreign majority positions and to remit funds abroad rather than simply machinery, equipment and capitalised know-how. Currently, Indian joint ventures are fairly widespread throughout the world and encompass a very wide spectrum of industrial activity. The details relating to India's joint ventures abroad, investments therein, extent of participation, and export earnings are given in Table I.

Table 1 indicates that as on June 30, 1980, India has established 200 joint ventures abroad with an investment of approximately Rs. 87 crores. Of this, 116 projects with an investment of Rs. 35 crores have already started production activities and the remaining 84 projects are in the process of implementation. A fairly large number of projects (190) could not be implemememted and had to be abandoned owing to various operational difficulties.

India's shareholding in joint venture projects abroad is rather small both in terms of aggregate equity as well as the percentage of the total capital outlay. In most of the cases (86 per cent of 116 projects which are under production and 87 per cent of 84 proje-

TABLE I

INDIAN JOINT VENTURES ABROAD: AN OVERVIEW

(AS ON 30th June 1980)

1. *Total Number of Projects Sanctioned*	390
(a) Projects under production	116
(b) Projects under implementation	84
(c) Total effective Ventures	200
2. *Total Number of Projects Not Implemented or Abandoned*	190
(a) Projects abandoned after having already gone into operation	33
(b) Projects not implemented at all	157
3. *Total India's Investment in Effective Joint Ventures*	Rs. 87.30 crores
(a) India's share of equity in operating units	Rs. 34.30 crores
(b) India's share of equity in units under implementation	Rs. 53.00 crores
4. *Total Capital Outlay in 116 Units Under Production*	Rs. 35 crores
5. *Extent of India's Participation*	
(a) In 861 per cent of 116 operating units, India has minority shareholding.	
(b) In 87 per cent of 84 units under implemetation, India has minority shareholding.	
6. *Additional Exports Generated Through Effective Joint Ventures*	Rs. 70 crore
(a) Figures for 1971-72	Rs. 14.4 crores
(b) Figures for 1977-78	Rs. 43.7 crores
7. *Total Earnings Repatriated*	Rs. 7.10 crores
(a) Dividends	Rs. 5.10 crores
(b) Royalties, technical know-how fees and agency Commissions.	Rs. 2 crores

---

* Lecturer, Faculty of Management Studies, University of Delhi, Delhi-110007.

cts which are under implementation), India's average share capital in the total outlay of the joint ventures abroad is a modest 25 to 30 per cent. In terms of equity shareholding also, India has minority position in a large number of overseas projects.

Nevertheless, India's joint ventures abroad have made significant contribution in creating export outlets for a very wide spectrum of Indian products and services. The products and services cover textiles, light engineering products, iron and steel products, automobile ancilliaries, machine tools, hand tools, instruments, commercial vehicles, scooters, heavy engineering products, non-ferrous metal products, chemicals and pharmaceuticals, plastic products, cement, glass and glassware, pulp and paper, sugar, processed foods, confectionary soft drinks, oilseeds crushing and refining, hard board, mosaic tiles, rubber products, leather prducts, enamel wire, electronics, hotels and restaurants, consultancy and construction projects. A broad industry-wise break up of India's joint ventures abroad is given in Table 2.

TABLE 2
INDIAN JOINT VENTURES ABROAD: INDUSTRY-WISE (AS ON 30th JUNE 1980)

Industry	Projects	Percentage
Engineering products	49	24.5
Construction, trade and consultancy	34	17.0
Textiles	26	13.0
Hotels, restaurants and food products	25	12.5
Chemicals and pharmaceuticals	17	8.5
Oils and refining	13	6.5
Pulp, paper, cement and sugar	11	5.5
Miscellaneous	25	12.5
Total	200	100

It is evident from Table II that the scope of India's joint venturing activities overseas is quite wide and diversified. It is also noteworthy that India's joint ventures are not concentrated in a limited region; rather, they are widely dispersed in both developed as well as developing countries of the world. The regional distribution of India's overseas joint venture projects is given in Table 3.

The details relating to product lines in which the Indian entrepreneurs are engaged in joint ventures in developed and developing regions of the world presented in Table 4.

Tables 3 and 4 show that Indian joint ventures have found wide acceptability in the countries of the Third World. Most of these developing countries possess abundant human and material resources. They need to harness these resources with the help of 'suitable' technology. India's joint ventures operating in developing countries often use 'efficient' technology and offer entrepreneural talent and expertise in the manufacture of inexpensive, generally uniform-quality and undifferentiated products. They contribute effectively in the development process without involving many of the costs associated with other foreign direct investments.[2] India's contribution through joint ventures in optimising the use of capital, material and manpower resources in developing countries has proved positively effective.

In very recent years, there has been an upsurge in India's venturing activities in oil rich countries of the Middle East. The projects in which India has participated largely relate to construction works. In fact, the construction projects have come to constitute a major segment of India's overseas business activities. These construction projects cover such diverse areas of operation as power generation, electrical transmission systems, construction of ports, bridges, dams, airports, schools, houses, hospitals, petro chemical and fertilizer complexes, steel plants and telephone exchanges, etc.[3]

Although India's joint ventures operating overseas do not necessarily possess lowest cost technology, they do enjoy a comparative

TABLE 3
INDIAN JOINT VENTURES ABROAD: COUNTRY-WISE* (AS ON 30th JUNE 1980)

Region/ Country	In production	Under Implementation	Total
A. SOUTH EAST ASIA			
Malaysia	29	9	38
Indonesia	9	9	18
Singapore	6	7	13
Thailand	4	4	8
Philippines	3	1	4
Hong Kong	1	2	3
	52	32	84
B. SOUTH ASIA			
Sri Lanka	3	4	7
Nepal	1	5	6
Afghanistan	1	—	1
Bangladesh	—	1	1
Sub Total	5	10	15
C. MIDDLE EAST			
U.A.E.	12	3	15
Saudi Arabia	3	2	5
Oman	4	1	5
Iran	1	–	1
Kuwait	2	–	2
Bahrain	1	–	1
Qatar	–	1	1
Sub Total	23	7	30
D. AFRICA			
Kenya	6	8	14
Nigeria	5	8	13
Mauritius	8	1	9
Uganda	1	1	2
Botswana	–	1	1
Liberia	—	1	1
Libya	—	1	1
Scychelles	–	1	1
Sub Total	20	22	42
E. EUROPE			
Cyprus	–	1	1
France	1	–	1
Greece	–	1	1
Netherlands	1	–	1
Spain	—	1	1
Switzerland	–	1	1
U.K.	4	4	8
West Germany	1	1	2
Yugoslavia	—	1	1
Sub Total	7	10	17
F. AMERICA AND CANADA			
Canada	1	–	1
U S.A.	8	3	11
Sub Total	9	3	12
Grand Total	116	84	200

---

* Excluding those projects which were given approval by the Government of India but could not be implemented.

Source : Indian Investment Centre, *Indian Economy at a Glance* September, 1980.

advantage in terms of theoretical cost by operating at relatively lower levels of volume of production. This is one of the reasons responsible for the existence of few joint ventures with India's participation in developed countries. While Indian projects in developed countries are largely concentrated in service ventures like hotels, restaurants, and food processing, some industrial technology ventures like milling machinery in West Germany, magnet wires and plastic products in the U.S.A. and bottling plant in Canada have also started operating effectively.

Thus, the extent, diversity, and geographic spread of the projects undertaken by India in overseas markets are indicative of the competence, com-petitiveness, and effectiveness of Indian entrepreneurs to meet the varied needs of largely the developing and to some extent the developed countries. We now present below some noteworthy examples of successful Indian joint ventures which are operating abroad.

Indo-Malaysian Engineering Company: Although the company has been set up as a joint venture involving Kirloskar Electric Company and Malaysian interests, the entire work such as purchase of land, contacting investors, raising share capital, obtaining various official approvals in both the countries, installation and commissioning of the plant was undertaken by the Indian party. A noteworthy feature of this joint venture is that Indian sophisticated technology in diesel engines and electric motors has been used effectively.

Tata Precision Instruments Industry in Singapore: This plant was promoted by Tata in 1972 for the manufacture of precision instruments and tools. Being primarily export-oriented, only about 2 per cent of its production is sold locally and the balance—about 98 per cent — is exported. Some of its products like tools and dyes for semi-conductors are exported back to India.

Pan African Paper Mill in Kenya: This project was jointly sponsored by the Government of Kenya, Industrial Finance Corporation of India, and Orient Paper Mills, a Birla unit, to manufacture high quality paper and newsprint to meet the requirements of Kenya. The project was sanctioned in 1969 and started production in 1974. Initially, this joint venture faced some financial difficulties which were promptly removed with financial assistance provided by the World Bank. The technical know-how offered by Birlas particularly proved effective in the marketing activities of the joint venture in Kenya.

TABLE 4

PRODUCT LINES OF INDIA'S JOINT VENTURES IN DEVELOPED AND DEVELOPING COUNTRIES
(AS ON 30th JUNE 1980)

Region	Projects	Product Line
A. *Developed Countries*	29	Hotels and restaurants, consultancy, marketing of garments, processing of cocoa butter oil, bottling of Indian run, polyethylene products, rice milling machines, steel wire rope, and the like.
(i) Europe	17	
(ii) North America	12	
B. *Developing Countries*	171	Engineering products like steel foundry, engineering steel files, furniture, precision tools, diesel engines, auto and auto parts, textile-synthetic, viscose, cotton and apparel, chemicals, drugs, pharmaceuticals, processing of cocount, copra, palm, vanaspati, soap, paper, shipping.
(i) South East Asia	84	
(ii) South Asia	15	
(iii) Africa	42	Paper, pulp, textiles-woolen, synthetic and cotton, razor blades, engineering complexes, shipping jute, mill, tiles, assembly of tractors, steel re-rolling, etc.
(iv) West Asia	30	Construction, consultancy, trading, gas cylinders, sulphuric acid, soda ash, air cargo complexes, hotels and restaurants.

Rice Milling Machinery Unit in West Germany: This is one of the oft-quoted projects undertaken by Kirloskars in collaboration with F. H. Schule Gmbh, a German firm. The joint venture has performed effectively in exporting its products like rice milling machinery, oil engines and related products to several countries of the world.

II

In this section we shall discuss some important implications of the Indian experience described above for technology transfer. The effectiveness of India's joint ventures abroad (especially in developing countries) points *inter alia* to the technological advantage which the country has come to possess by having mastered mature technology or having adapted to suit the international environment. This means generally that the investments in joint ventures abroad have involved, at one extreme, India's ability to 'reproduce' technology learnt locally and/or, on the other, the ability to manage and control an organisation with foreign equipment technology or some kind of a combination of Indian and foreign technologies.

India's participation in joint ventures abroad has involved a substantial element of indigenous technology that has stemmed from a large capital goods production base in India. The venturing activities that have been undertaken abroad have also involved organisational and managerial know-how and other capabilities (needed to interact effectively with international environment) developed in India.

India's joint ventures abroad encompass a broad range of technologies. The relatively simple technologies are exported through joint ventures in areas like textiles, food, and metal products. The relatively complex and sophisticated technologies find place in venturing activities such as commercial vehicles, auto components, machinery, and pharmaceuticals. Of the two types of activities, the simpler activities predominate and India's main strength here lies in mastery over the production technolology, efficient operations of standardised production processes and the ability to organise and manage well in difficult conditions particularly in a developing country.[4] The relatively complex technologies exported by India through joint ventures are not necessarily the latest but are quite reliable and in most cases 'appropriate' for conditions in a developing country. In certain cases (sal and mango oil) India has developed peculiarly indigenous technology for effective use in India's joint ventures in both developed and developing countries.

In general, the picture that finally emerges for India's joint ventures abroad is as follows: India's participation in joint ventures abroad has involved such factors of production as technology (including patents, know-how, results of research and development, and technical expertise), machinery and equipment, raw materials (such as industrial requirements like water, power, fuel, etc.), land, building transport facilities, labour and managerial skills. The Indian overseas manufacturing activities span a wider and more complex range of technologies The export of Indian technology through joint ventures generally contains domestic technical know-how.

The emerging trends in India's joint ventures abroad challenge several pieces of conventional wisdom relating to technology transfer. First of all, the technology gap and Heckscher-Ohlin theories[5] are needed to be examined further in a revised framework. To be realistic, the comparative advantage theories would have to be applied usefully not on the basis of the conventional distinction between skilled and unskilled technological activities in 'general', but on the basis of very clear distinction between 'specific' types of skill based on particular learning processes, and specific investments in different kinds of technological activity.

The investments undertaken by developing countries in general and India in particular in the form of joint ventures abroad add yet another dimension to the discussion and analysis relating to transfer of technology. It has become important now to seek an explanation of behavioural patterns of technology transfer from developing countries (including India) to sophisticated and developed as well as relatively primitive and less developed market economies. We hope, researchers would examine and analyse in depth the implications of the current evidence relating to joint ventures undertaken by developing countries in general and India in particular on foreign locations for technology transfer and the related literature.

NOTES

1. See, for example, Lacraw, D. J. (1977), "Direct Investment by Firms from Less Developed, Countries," *Oxford Economic Papers*, p. 442-57; Heenan, D. A., and Keegan, W. J. (1979), "The Rise of Third World Multinationals," *Harvard Business Review*, January-February, pp. 101-9, and Wells, L. T. (1978), "Foreign Investment from the Third World; The Experience of Chinese Firms from Hong Kong, "*Columbia Journal of World Bussiness*, Spring, pp. 39-49.

2. For an empirical investigation of the performance of Indian firms in Thailand see Lecraw (1977, *(op cit)*.

3. Indian firms have obtained contracts in the Middle East, accounting for about 73 per cent of over $ 2.5 billion total contracts which Indian firms have obtained as on January 31, 1980.

4. For empirical testing of this argument see Lecraw (1977), *op cit*.

5. For a comprehensive review of the existing theories see Hirsch, S. (1977), *Rich Man's Poor Man's and Every Man's Goods*, Tubingen: J.C.B. Mohr.

GROWING FOOD DEFICIT IN LOW-INCOME DEVELOPING COUNTRIES

The Director-General of the Food and Agricultural Organisation (FAO), Mr. Edouard Saouma has asked for increased food aid, citing the growing grain deficit of low-income developing countries and multiplying emergencies. Mr. Saouma, addressing the Committee on Food Aid Policies and Programmes this month, singled out the unmet food-aid targets of the World Food Conference in 1974, the International Emergency Food Reserve of 1975, the World Food Programme (WFP), as well as the "insufficient" pledges to overcome the current critical food shortages in Africa.

Mr. Saouma said developing countries were expected to import 95 million tons of grain in 1980-81, 7 per cent more than the previous season. "The principal victims", Mr. Saouma stated, "as always, are the low-income deficit countries whose imports are expected to increase by 6 million tons in 1980-81, or 17 per cent".

In addition, emergencies — natural and man-made — have multiplied in the last two years, with the number of countries facing acute food shortages doubling to nearly 30. Mr. Saouma announced that since the beginning of this year alone, he had to approve no less that 23 emergency food aid operations at a total cost of about $ 73 million.

Mr. Saouma told the Committee that the yearly target of 10 million tons of grain as food aid set by the World Food Conference had been elusive in the past and was unrealistic for current and future needs. He said the 17—18.5 million tons of grain estimated to be needed as food-aid in 1985 would now look "conservative". "It is necessary to revise the food-aid target", Mr. Saouma stated, asking the committee to review it.

On the International Emergency Food Reserve, he repeated his call for its conversion from voluntary basis to a binding convention, considering that the minimum target of 500,000 tons a year had never been met The Reserve, he added, should be truly multilateral and placed freely at the disposal of the WFP. Taking note of economic difficulties besetting donor countries — inflation, unemployment, economic stagnation and monetary instability — Mr. Saouma told the committee that it would be deplorable if the poor countries were to pay for the austerity policies of the developed countries.

Japanese Economic Miracle Explained

By T. Diwakara Rao *

Japan, which has hardly any natural resource to boast of, has taken breath-taking strides in industrialisation. It has also stolen a march over most industrial nations of the west, with the possible exception of Germany. In this article, the author takes a look at the Japanese economic miracle against its historical backdrop and commends its example to developing countries like India.

JAPAN is now recognised as one of the top-most developed countries in the world. Despite putting forward strenuous efforts to attain high rates of economic growth, many countries in the world have not been successful but Japan is an exception to this. Now, some pertinent questions readily strike our mind. How could Japan achieve such an appreciable level of economic development? What factors are responsible for this?

From 1186 to 1867 A D. successive families of *shoguns* exercised the temporal power in Japan. It was in 1867 A D. emperor Meiji recovered the imperial power after the abdication of the last Tokugaua Shogun. Emperor Meiji introduced a number of progressive measures which had basically contributed Japan to make rapid strides in the development of agriculture as well as industry. In 1871, the feudal system was abolished. This was the beginnng of rapid westernalisation in Japan. Consequently, certain sectors of the economy especially industry, defence, education etc., were very much influenced by westernalisation. As rightly said by R. Storry "The entire westren national civilisation seemed to find some reproduction, some kind of echo in Japan". Labour was trained in modern methods of production. Emperor Meiji believed that unless people of Japan could be made literate, it was not possible to make them fully involved in the process of economic and social development of the country. Therefore, top priority was assigned for the expansion of education and thus by 1920 illiteracy was completely removed in the country.

As for as agriculture is concerned, it can be noticed that most of the cultivated area comprises of very small holdings with an extent of nearly 1 to 2.5 acres of land. In order to meet the requirements of food as well as to formulate a strong industrial base, importance was given to agriculture even in the days of emperor Meiji. Intensive method of cultivation has been adopted by mechanisation of agriculture, by using more chemical fertilisers and high yield variety seeds. Government of Japan made every attempt to provide adequate institutional credit to the farmers. Japan's agriculture has been so much advanced that the country ranked first in rice growing nations in the world. It is to the credit of Japan that many couutries in the world today have been following the techniques used by her in agriculture.

Besides agriculture, Japan's industrial progress is also responsible for the high rates of economic growth. It would be more meaningful to review the industrial progress during three important periods namely, the period prior to 1868, a 20-year formative period from 1868 and the one subsequently thereafter. Prior to 1868, Japan's industrial progress was very slow during the regime of Tokugawa Shoguns. Economic progress was very much impeded by the existence of feudalism. It was only after 1868, steps were taken for constructing strong industrial base, and foundtions were laid to develop defence and infrastructural facilities. Not only the existing industries in private secotor were encouraged to expand their production, but many new industries came into existence in Public Sector. One of the most important features of Japan's industrial progress which is perhaps unique in the development history of many nations is that the industries which were initially established and very well developed by the Public sector have been handed over to the Private sector. Such a method of industrialisation obviously overcomes difficulties associated with the shyness of private capital to develop industries. Moreover, during the period from 1868 to 1890 Japan could attract appreciable quantum of foreign capital which also contributed to her industrial development. Above all, concentration of industrial wealth in the hands of a few big industrialists who were called 'Zaibatsu' has contributed a lot for rapid industrial progress and hence for accelerated economic growth of Japan. Rapid strides were made in metal, silk, and textile industries.

After 1890, Japan's economy has been very much subjected to so many wars that took place. But contrary to general belief, Japan's economy has significantly improved due to the wars. During the first world war, Japan's exports to other countries in the world increased many times due to expansion of markets and thus leading to a favourable balance of payments position. But the country had to experience a serious setback from 1920 due to sudden decline in her exports after the end of first world war as well as due to adverse effects of the great depression in 1930's. However, certain measures like rationalisation of industries, abondonment of gold standard in 1931, protecting industries from foreign competition by increasing exports via a reduction of cost of production etc., had immense favourable effect to put the economy again on the path of Economic development.

In many countries in the world, industrial protection was followed

---

* Dr. Diwakara Rao is Lecturer in Economics, SRR and CVR Govt. College, Vijayawada—4.

by imposing import duties but in Japan it was by reducing cost of production, the competitive strength of domestic industries had been improved. Unlike the first world war, the second world war had a different impact on Japan's economy. Most of the important industrial centres were completely destroyed during the second world war which pulled down Japan almost to the status of an under-developed country.

But surprisingly again, within a very short span of time, Japan could recover from the onslaught of war so well that it stood as one of the developed countries in the world. Japan regained her sovereignity in April 1952. The Japan-U. S. Mutual security treaty was signed in 1960. During the post-war period, Japan's economic progress should be more attributed to the grim determination of Japanese towards accelerated economic development, the constructive and pragmatic policies followed by the Government, the perfect hormony between large and small scale industries, the out break of Korean War and above all the very significant role played by 'Zaibatsu'—the group of industrialists.

Today, Japan, with an erea of nearly 3.7 lakh sq. kilometres, comprising of mainly four islands and having roughly a total population of 115 million, is one of the most prosperous nations in the world. Japan's present government is based on the constitution of 1947 which superseded the Meiji constitution of 1889. The Emperor is the symbol of the states and of the unity of the people. The Emperor has no power related to Government and the sovereign power rests with the people who uphold the ideas of democracy and peace.

A glance at the present economic position reveals certain interesting points. Nippon bank (Bank of Japan) performs similar functions as that of a Central Bank in any other country and provides finance to the Government and other banks. The Government of Japan mostly favours balanced budgets. Main items of revenue comprise of taxes, stamp duties and Public bonds. Main items of expenditure as can be seen from the budgets comprise of aid to local Governments, public works, social security, education and defence. Local Governments make up their revenues partly by local taxes and partly by Government grants and local loans. There are many social security schemes such as health insurance, unemployment insurance and old age pensions. The total population of the country comes under one or more of these schemes. Suitable development plans are formulated by the Government from time to time.

The social and economic development plan, adopted by the Government of Japan, aims at an annual growth rate of 9.4 per cent. Rice is the most important crop occupying nearly 47 per cent of the total cultivated area. There are problems of over production unlike the problems of shortage in under developed countries. Japan's industrial sector employs 11.2 million workers. Since a decade or so, there has been shift from light to heavy industries. The production of electrical appliances and electronic machinery has made great strides. Japan's progress in ship-building is no less important and now accounts for 50 per cent of the world's launchings. Japan's main exports are to U. S. A. Canada and Taiwan and mostly comprise of textile products, metals and machinery and chemicals. Principal items of her impors are from Indonesia, Iran, Canada, U. S. A. and Australia and mostly comprise of mineral fuels, food stuffs, metal ores, machinery and Transport equipment etc. Japan's total labour force is roughly 60 million of which the unemployment rate is only 1.2 per cent. Japan's Yen today commands a greater stability in the international market than even the Pound Sterling or the Dollar. Any developing country which attempts to emulate the pattern of Japanese economic growth, should not ignore the basic fact that the key to accelerated economic growth lies not very much on the availability of natural resources or otherwise but on the grim determination and active involvement of people in the development process.

UNCTAD CRITICIZES EXCLUSION OF DEVELOPING COUNTRIES

There is the risk of a "drastic reduction" in the share of world trade benefiting from the Generalized System of Preference (GSP) as a result of the increasing tendency of preference-giving countries to exclude from the system developing countries that have "done too well" in exporting their goods to industrialized countries. This warning was delivered by Mr. Reinaldo Figueredo, Director of UNCTAD's Division of Manufactures, in opening a two-week review of the GSP on May 11.

The GSP, which was pioneered by UNCTAD in 1970 and under which developed countries grant preferential tariff treatment to developing countries' exports without requiring concessions in return, has acquired major importance. In 1979 it is estimated that about $17 billion worth of dutiable imports entered the nineteen preference-giving countries of of OECD with the benefits of GSP tariff cuts. Five socialist countries of Eastern Europe also accord preferences. In all, nearly 130 developing countries, plus dependent territories, benefit from GSP concession. These vary from one preference-giving country to another with respect to product coverage, depth of tariff cut, safeguard mechanisms and rules of origin.

Mr. Figueredo said that justifications advanced by preference-giving countries for with drawing GSP benefits from the more advanced developing countries was that in this way a greater number of developing countries, particularly among the less developed countries, could be accommodated under the schemes. Mr. Figueredo contended that in practice with-drawal of preferential treatment constituted a penalty for countries which have succeeded in increasing their exports of products covered by the GSP. Moreover, other less developd countries were often not in a position to increase their export of the products concerned.

Economic Development of Jammu and Kashmir: Centre's Contribution

AMONG the States of the Indian Union, Jammu and Kashmir is the only State to be given a special status in the Constitution. It is also the largest beneficiary from the Central Government in terms of *per capita* assistance.

Jammu and Kashmir is one of the most sparsely populated States in the country, the density of population being about 25 persons per square km. compared to the all-India average of 138 persons per square km. The economy of the State has not been viable, and from the beginning of the First Five Year Plan, it has been the recepient of large-scale financial assistance from the Central Government. The State had to face upheavals following aggression from across the borders, twice from Pakistan, in 1947 and 1965, and from China in 1962. This affected the economy of the State, but the Central assistance for development of the State has been liberal. Jammu and Kashmir is the only State where all the districts have been declared as backward for providing concessional finance. In all the Six Five Year Plans, Jammu and Kashmir has been given special economic treatment. This will be clear from the anlaysis below:

In the First Plan, the Central aid to the Jammu and Kashmir was of the order of 61.5 per cent as against the next highest of 50 per cent for Assam. In the Second Plan period, the assistance to Jammu and Kashmir was of the order of 73 per cent and for the Third Plan it was cent-per-cent. For the Fourth Plan period, the Central assistance was over 80 per cent, and for the Fifth and Sixth Plans the Central aid was more than the speified outlay. As a result the funds provided by the Central Government could be utilised by the State for uon-plan expenditure.

As regards *per capita* assistance, the Central contribution was Rs. 30 for Jammu and Kashmir during the First Plan as against Rs. 24 for all the other States. This went upto Rs. 56 during the Second Plan as against Rs. 26 for all the other States. The respective figures for the other Plans are: Third Plan: Rs. 166 *per capita* for Jammu and Kashmir as against Rs. 55 for other States; Fourth Plan: Rs. 300 for Jammu and Kashmir and Rs. 65 for other States; Fifth Plan; Rs. 1,033 for Jammu and Kashmir and Rs. 102 for other States and for Sixth Plan Rs. 2,185 for Jammu and Kashmir as against Rs. 258 for other States.

Under the impetus of the Central aid, for the various plans, considerable progress has been made in Jammu and Kashmir over the years in regard to building up basic facilities and also the capacity for generating production in various fields. Also due to the liberal assistance from the Centre, the State Government could provide free education in 1953, right from primary to post-graduate level. People of the State were also provided foodgrains at heavily subsidised rates as compared to other States for a number of years.

Per Capita Income : The *per capita* income in the State increased from Rs. 269 in 1960 61 to Rs. 306 in 1973-74 registering an increase of about 14 per cent. The comparable figures at the national level were Rs. 305 during 1960-61 and Rs. 340 during 1973-74 registering an increase of 11 per cent.

Development : The economy of the State is based primarily on agriculture and about 55 per cent of the State's income was generated from this sector in 1975-76. Constraints in the form of topography, small holdings, landlord tenant relationship have stood in the way of rapid advances in this sector with the result that benefits of modern technology like improved varieties of seeds, fertilisers and mechanisation have made their mark only in some areas.

There has been no broad industrial base in the State due to difficulties of communication, geography and climate. Further, promotion of industry had been restricted due to shortage of power. In spite of these difficulties, outlays in industrial sector increased from Rs. 66 lakhs in the First Plan period to Rs. 750 lakhs in the Fourth Plan period. The number of registered factories increased from 107 in 1962 to 376 in 1975, and the number of workers employed in the factories recorded a corresponding increase from 5,482 to 12,500.

Tourism and Agriculture : An important industry in the State is Tourism and in recent years, there has been a steep increase in the number of tourists coming to the State. Horticulture also has been developed in the State and the export trade has picked-up. The area under orchards increased five-times in the period 1950-75. The quantum of fruits marketed outside the State increased from 1300 tonnes in 1950-51 to 1,68,000 tonnes in 1973-74.

Foodgrain production increased nearly 50 per cent in the plan periods. The cropped area also registered a similar increase. During the Sixth Plan, foodgrain output is proposed to be raised from 1.1 million tonnnes in 1979-80 to 1.7 million tonnes in 1985. The generation of clectricity increased from 6 megawatts in 1951 to 104 megawatts in 1975–76. This was, stepped up to 205 megawatts during 1980–81.

Roads : There has been enormous extension in the network of roads in the States in the last several years. The Border Roads Organisation of the Central Government has contributed to this expansion along with State Government. The establishment of the rail link with Jammu has been a major step-forward.

Jammu and Kashmir is the least taxed State. Its *per capita* revenue in 1971-72 was Rs. 17.4 against the average *per capita* revenue of Rs. 30.4 for all the States. One-third of the tax revenue comes from one source of excise sale of and duty on liquor. Another important sector of income is forestry. In the State's budget, grants-in-aid and other contribution from the Central and public enterperises, and share in Union excise account for a major portion. Even for capital receipts, the State is heavily dependent on the Centre for loans, as public borrowings were either nil or negligible.

As a result of the implementation of the various Five-Year Plans financed mainly or fully with Central assistance, there has been a remarkable change in the economic and social life of the people. The State has the largest *per capita* expenditure on health and education.

Health : In the last twenty-five years the number of doctors increased ten-times, and the *per capita* expenditure on public health increased from 50 paise to Rs. 15. Consequently, the average life-span increased from 32 to 50 years. In the same period, the *per capita* expenditure on education increased from 80 paise to Rs. 24.

The State has become physically closer to the rest of the country through a stable national highway, construction of Jawahar Tunnel and a rail-link, air-services and direct dialing telephone services between Srinagar, Jammu and Delhi. In the last 10 years, the percentage of workers engaged in intermediary occupation went up from 23 per cent to 32 per cent. In the case of women the increase was from 16 to 40 per cent.

Concessional Finance: The scheme of Concessional Finance from all-India term lending financial institutions viz., the IDBI, IFCI, ICICI, etc., came into force from the middle of 1970. The concessions given by these institutions relate to: (i) Lower rate of interest; (ii) Lower promoter's contribution (a higher debtequity ratio); (iii) Initial moratorium for a period of upto 5 years; (iv) Longer amortisation of 15-20 years; (v) Reduced commitment charge of 1/2 per cent; (vi) Risk participation on selected basis; and (vii) Lower under-writing concession/commitment charges.

Under a provision in the Direct Tax Amendment Act, 1974, 20 per cent of the profits and gains derived from newly set up industrial undertakings after March 31, 1973, in industrially backward areas are exempted from income tax for a period of 10 years. The scheme of Concessional Finance is applicable to the 247 districts identified as industrially backward. As for Jammu & Kashmir State, all the districts have been selected as industrially backward districts to qualify for concessional finance from the financial institutions. The concessional finance sanctioned and disbursed by the Institutions to Jammu & Kashmir is as under:

DISTRIBUTION OF CONCESSIONAL FINANCE

(as on 31.12.1979) (Rs. in lakhs)

State	IDBI		ICICI		IFCI	
	Sanctioned	Disbursed	Sanctioned	Disbursed	Sanctioned	Disbursed
Jammu & Kashmir	1716.03	1424.54	219.71	118.12	158.50	61.00
All States & Union Territories	101834.56	56330.09	14961.12	10267.48	16453.22	11242.53

IDBI-Industrial Development Bank of India, IFCI-Industrial Financial Corporation of India ICICT-Industrial Credit & Investment Corporation of India.

STATES RESOURCES, CENTRAL ASSISTANCE AND PLAN OUTLAYS FOR DIFFERENT PLAN PERIODS.

(Amount in Rs. crores) (Per capita in Rs.)

Plan period	Jammu & Kashmir			All States		
	States Resources	Central Assistance	Plan Outlay	States Resources	Central Assistance	Plan Outlay
First Plan	3.00	10.00	13.00	545.00	880.00	1425.00
(1951-56)	(9)	(30)	(39)	(14)	(24)	(38)
Second Plan	7.36	19.46	26.82	1024.28	1058.28	2082,56
(1956-61)	(21)	(56)	(77)	(25)	(26)	(51)
Third Plan	—	61.24	61.24	1649.58	2515.17	4164.75
(1961-66)	—	(166)	(166)	(36)	(55)	(91)
Annual Plan	1.10	58.18	59.28	1265.63	1794.76	3060.39
(1966-69)	(3)	(149)	(152)	(25)	(36)	(61)
Fourth Plan	23.53	138.64	162.22	4139.89	3534.70	7674.59
(1969-74)	(51)	(300)	(351)	(77)	(65)	(142)
Fifth Plan	(—)114.38	477.02	362,64	12755.67	5528.55	18284.22
(1974-79)	(—248)	(1033)	(785)	(236)	(102)	(338)
Sixth Plan	(—)109.00	1009.00	900.00	33241.67	13962.33	47204.00
(1980-85)	(—236)	(2185)	(1949)	(614)	(258)	(872)

Note : Figures in brackets indicate Per-Capita in Rupees.

Minus signs represent the non-plan gap in State resources.

Central Subsidy : The scheme for 10 per cent Central outright Grant or subsidy for industrial units to be set up in selected backward areas/districts was notified by the Government on 26th August, 1971 and was applicable with effect from October, 1970. Initially under the scheme, an Investment subsidy amounting to 10 per cent of the fixed capital investment (Rs. 50 lakhs subject to a ceiling of Rs. 5 lakhs of new and in the case of existing units undertaking substantial expansion was provided. From March, 1973, the rate of subsidy has been increased from 10 per cent to 15 per cent of the fixed capital investment (raised to Rs. 1 crore) subject to a ceiling of Rs. 15 lakhs. With effect from January 1 1977, the existing units in such districts/areas are eligible for subsidy for the purposes of expansion if the additional investment is not less than 10 per cent (rate decreased from 25 per cent to 10 per cent).

Transport Subsidy:- Following the recommendation relating to provision of Transport Subsidy for industries in selected backward and remote areas of some States and Union Territories made by the Wanchoo Working Group, it was decided to set up a small Committee under the Chairmanship of Shri. T. Swaminathan to work out the details of such a scheme. — *Source Planning Commission.*

Another Successful Year for SBI

THE aggregate deposits of the State Bank of India increased by Rs. 854 crores (11.4 per cent) during 1980 as compared to Rs. 1,440 crores (23.8 per cent) in 1979. Withdrawal of substantial deposits by oil companies to meet the higher cost of imports of crude oil and of temporary funds by corporate customers and a change in the accounting system of the high value bank drafts were some of the special factors which caused a decline in the deposit growth rate of the Bank. Making allowance for these factors, which depressed the quantum of growth by about Rs. 400 crores, the rate of deposit accretion of the Bank at 16.7 per cent was higher than that of the banking system. Lower inflow of deposits from the public sector undertakings out of their budgetary grants from the Government, which generally create a larger impact on the Bank, also kept down the rate of deposit growth in 1980 as compared to that in 1979.

Credit Expansion

In 1980, the Bank recorded a higher credit expansion of Rs. 1,088 crores (21 per cent) than Rs. 681 crores (15.2 per cent) in 1979. While the Bank's food advances declined by Rs. 153 crores as compared with a rise of Rs. 34 crores in the previous year, its non-food advances registered an increase of Rs. 1,241 crores as against Rs. 647 crores. The higher rise in non-food advances was mainly on account of extension of large credit to oil companies and to public sector undertakings. Of the total expansion in non-food credit, oil companies and public sector undertakings accounted for 55 per cent as against 20 per cent in 1979. In addition, about 31 per cent of non-food credit expansion went to the priority sectors. Barring the growth in credit in these accounts, the increase in non-food advances was moderate.

Tandon Committee Norms

The Bank made further progress in the implementation of the Tandon Committee norms in 1980. These norms were complied with by 70 per cent of the units in respect of which inventory as against 65 per cent in 1979. Similarly, the percentage of the units conforming to the lending norms increased from 70 to 75.

As at the end of	1979	1980
Deposits and Other Accounts (Rs. crores)	8,558	9,636
Advances (Rs. crores)	5,726	7,213
Investments (Rs. crores)	2,581	3,024
No. of Offices (Including Overseas Offices)	5,188	5,605

The Bank's investments in Government securities rose by Rs. 415 crores during the year as against Rs. 324 crores in 1979. Its borrowings from the Reserve Bank of India declined by Rs. 72 crores as against a rise of Rs. 112 crores in 1979. The tempo of branch expansion picked up significantly in 1980 and 412 new branches were opened in India as against 190 in 1979. These new branches included 34 agricultural development branches and 84 village branches. The focus of the Bank's branch expansion programme continued to be on extending its rural and semi urban branch network and giving greater coverage to underbanked states. As much as 57 per cent of the new branches opened were in the comparitively underbanked states of Bihar, Madhya Pradesh, Orissa, Uttar Pradesh and West Bengal.

The Bank supported, in a significant measures, exports of capital goods and turn-key projects and overseas construction contracts, which have been accorded a high priority at the national level. The Bank, along with its associates, assisted during the year in submitting 210 bid proposals covering the export of a wide range of itmes. The outstandings under such term export credit amounted to about Rs. 49 crores. In addition, the Bank's guarantee commitments were of the order of Rs. 220 crores. Foreign currency loans for about $ 110 million were also granted to Indian exporters to finance purchases from third countries and to take care of temporary cash flow problems in execution of overseas projects. During the year, the Bank lead-managed a consortium formed for the purpose of adding conformation to letters of credit aggregating Rs. 16.5 crores received from Uganda covering the export of a variety of Indian goods.

Merchant Banking

In 1980, the Merchant Banking Division managed 20 capital issues for Rs. 15.7 crores, of which 12 were in respect of projects in backward areas. The division also syndicated loans totalling Rs. 113.1 crores for 15 companies as against Rs. 96.6 crores syndicated for 9 companies in 1979. Since its inception in 1972, the Merchant Banking Division has successfully handled 122 capital issues for a total amount of Rs. 130 crores and syndicated loans aggregating Rs. 337 crores for 62 companies involving a total capital outlay of Rs. 921 crores.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

COVER
YOUR
HOME
WITH
CHEER...

WITH COLOURFUL

COIR.

Bring coir into your home. At the doorfront. Across the floor. Along the walls. On the ceiling. Over the staircase. On the sofas and beds. Coir bursts with decor ideas, Doormats, Carpets, Rugs, Mattings. Rubberised mattresses and cushions. 100% moth-proof, coir is tough and durable. It washes clean easily. Dust just slides off it. Yes. Coir can make your home contemporary, comfortable, colourful, elegant and functional.

AND HERE'S THE
SURPRISE:
COIR COSTS SO LITTLE!

COIR BOARD
COCHIN - 682 016

Employment and Rural Development

THE book under review presents the results of a study carried out by the author of the employment aspects of a block, Chikknayakanahalli in Tumkur district of Karnataka, under the integrated rural development programme.

The various nuances of unemployment, 'disguised', 'under' etc. are explained in the vein of Majumdar-Divan-Bharadwaj-Lewis-Fei. Pages 10/12 clarify the time and other dimensions of unemployment and 300 days are taken as the maximum for the supply curve of labour in a year, 240 days constitute a fully employed labour; one who works between 60 and 240 is an underemployed human being. There are also further sub-categories.

The unemployed are those who wish to enter the labour market but are constrained because of exogenous factors—layoff, lack of demand for labour etc., 'Invisible' or 'disguised' unemployment is difficult to measure. Visible underemployment refers to "persons who are in employment of less than normal duration and who are seeking or who would accept additional work".

A random stratified universe is taken and various proportions are estimated, by the interview method—unemployed to total population, unemployed to adult population etc. The percentage of unemployed to adult population is 62.74 and to total population, 35.82.

The Lorenz curve technique is utilized for each 'hobli' to arrive at the status of income and expenditure. The skewed pattern of expenditure/income is revealed in the following observation:"44.45 per cent of the expenditure is shared by little more than one per cent of the households...."(Page71).

The low proportions of artisans and female labour in the labour force have been highlighted. The female participating percentage is only 7.00. In the light of 'intensive' employment discussions, this phenomenon makes disturbing reading. The tables give a wealth of details on per capita income, occupations, literacy and the like. Details are also available on agricultural labourers, small farmers, marginal farmers and vulnerable sections of society.

Tables 15/20 on the status of marginal farmers pointedly reveal their subsistence level. A small proportion work in government and are in business. A large proportion (389 and 1480 Table 17 page 238) works as agricultural labourers hiring out their services to supplement income. Only 2 households have a per capita income of Rs. 200 and above per month. The bulk were employed for 180-300 days annually.

Out of 1870 labourers, 823 were economically active. Only 10 had education upto S. S. L. C. level and the bulk had a per capita expenditure level of Rs. 0-50 per month. Even if in-kind payments are taken into account, the poverty syndrome is starkly illumined. Tables 21/25 highlight these figures. Similar abject poverty prevails among the artisans—Tables 27/32.

A series of suggestions have been made to promote employment—livestock, dairy farming, cottage industries etc. This will, however, need Rs. 32 crores, a stupendous task for resource-raising for one taluk alone. Employment estimates upto 1985 in respect of manpower are studied separately in a chapter.

This is a pioneering in-depth study of the topic, not effected before in India and taking advantage of sophisticated statistical techniques. It is useful both for the planner and policy-maker. As a study in applied economics, it constitutes a benchmark and deserves a place in every bookshelf. In the reviewers' opinion, other administrator-economists in Government should emulate the author by carrying out similar studies in their States.

— S. Venu

---

* *MICRO-PLAN FOR FULL EMPLOYMENT* by Dr. K. Puttaswamaiah, Oxford & IBH Publishing Co., 1981., Rs. 100, Pages 331.

Economic Growth in Karnataka

Economic Development and Betterment Taxes In Karnataka by S. P. Kher Published by Mrs. Kusum S. Kher, Gandhi Chauk, Dharwar-580001, Price Rs. 45.

The book under review is basically a critical account of the development of Karnataka. The author has tried to assess the level of development of Karnataka through various indices such as *per capita* income/consumption, asset holdings, unemployment and underemployment etc., some of them already worked out by other scholars. While Karnataka is relatively not a backward state of India, the author contends that it has still to go a long way in order to achieve a reasonable standard of living to its people, particularly to those living below the poverty line (37%). Even the living standard of a substantial proportion of the population living above the poverty line leaves much to be desired.

At the same time, with the increase in population and spread of education, unemployment as well as underemployment has been increasing over the years. According to the author, there is an urgent need to provide productive employment to unemployed and underemployed in order to remove the poverty. This would obviously require a much more vigorous effort for the development of agriculrure, industty and other sectors.

Though several strategies have been adopted by the state and central governments, so far the growth of the economy has been rather much below the requirement. Besides, most of the planning efforts have been half-hearted and less than comprehensive. For the rapid economic development of the state, a time-bound programme as well as devolution of planning to the gross-root-level is a *sine qua non*

In the recent time, Karnataka has witnessed an unprecedented movement of farmers demanding writing off of the outstanding bank loans and the exemption from betterment taxes and so on. This may be a sequel to the unabated demands by the organized workers in the urban areas. As resource is always a constraint in a developing country like India, such demands are certainly not justified. The author is right in arguing that those who have already benefited by various development efforts must part with a portion of their benefits so that the development efforts could further be extended and intensified in order to improve the overall socio-economic condition of the state.

The book is well written and well argued, supported by numerous tables of relevant facts. It gives an integrated picture of the socio-economic condition of Karnataka and would prove to be valuable for readers as well as planners and policy-makers.

— **A. N. Pandey**

Absenteeism in Industry

Management of Absenteeism by S. K. Bhatia, published by Asian Publication Services, II-K-29, Lajpat Nagar, New Delhi, Pages 250, Rs. 60.

Mr. S. K. Bhatia's book, *Management of Absenteeism*, deals with a vital area in Indian industries. Organisations are concerned with high rates of absenteeism but the attitude is one of despair. This has perhaps been due to lack of awareness and proper appreciation of ill-effects of absenteeism. It is also partly because, so far, very little systematic work has been done on analysis and control of absenteeism. High rate of absenteeism are not only sapping industrial efficiency and growth but are also adversely affecting the welfare of absentee employees.

Mr. Bhatia's book is the first of its kind on managing absenteeism. It covers all the facets of the problem — concept, its effects, causative factors, methodologies for analysis, review of research findings and remedial measures to tackle absenteeism, etc. The book is divided into six sections comprising of 18 chapters.

Firstly, the author has laid emphasis on development of methodology for analysis of absenteeism. Analysis methodologies are explained through empirical case studies carried out by the author under two complementary approaches. Under 'condition centred approach,' the analysis identifies problem areas of absenteeism with reference to its overall absence rates, pattern, quantum, location and number of employees involved in absence in an industry. Under the 'person centred approach,' the methodology for identification of habitual absentees is explained. The author also deals with identification of factors consistantly associated with high absenteeism in a large plant. In this study, the perception of two groups of employees, i. e., chronic absentees and those of regulars have been investigated by application of empirical research method and statistical tests. In this way, in-plant, personal and external factors associated with absenteeism are identified at plant level. Such an identification can help in guiding the management's future policies for controlling absenteeism.

Secondly, a separate section summarises the research findings on absenteeism in India and abroad. Here the author has also suggested future direction for research. Attempt has been made to codify certain universal characteristic of absence proneness. These can be of immense value in personnel decisions.

Thirdly, four chapters are devoted on the important aspect of remedical measures for absenteeism. The author has suggested a result-oriented approach: (a) laying of strategy and approach for control and prevention of absenteeism on long term basis; (b) creating awareness and involvement of personnel at all levels in the organisation; (c) mutually setting up the unit target for reduction of absenteeism on year-to-year basis; and (d) formulation of an action plan for implementation. For this purpose 'specifiic cures' and 'alleviative cures' are critically examined so as to suggest steps for establishing a practical programme for reducing absenteeism at micro plant level. One chapter is exclusively devoted for tackling absence as an indiscipline.

In view of enormous legal aspects involved in taking disciplinary action, the essential formalities to be complied with by the managements are given. Supervisors can play a key role in control and prevention of absenteeism. Various aspects of their role are delineated in a concise form.

The author also emphasises that focusing on the individuals who are absent often, rather than just the overall absenteeism rate, is very useful. He explains a small number of 5 to 10 per cent of habitual absentees normally inflate the rate of absence. By tackling chronic absentees alone, the rate of absence can be brought down by about 4 to 5 per cent. The need for constructive approach through counselling the habitual absentees has been highlighted. The book will be of particular interest to practising poofessionals who want to create an impact through innovative personnel tasks in improving the productivity and effectiveness of their organisations.

— **C. D. Nandwani**

Subscribe to :

SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign:* 15 Dollars)
surface mail

Company Meeting: Hindustan Lever Limited

MODERNISING TECHNOLOGY

Speech delivered by Dr. A.S. Ganguly, Chairman, at the Annual General Meeting of Hindustan Lever Limited, held at Bombay on Tuesday, 23rd June, 1981

This is the first time that I am addressing you as the Chairman of your company. I have, therefore, chosen a topic which has been a prime force of change in this company over several years and has progressively changed the character of the business and strengthened it very significantly. It is also, in a larger context, an area of vital concern to those who are responsible for industrial growth in this country.

I felt it would be useful to begin by reviewing certain features of technological development in this country with particular reference to the current debate on the need to upgrade and modernise industry in India to increase production, productivity and exports.

To say that the scientific method can play a critical role in creating wealth through production and productivity is to state the obvious. Yet, in our collective consciousness this truism is only just beginning to surface. The escalating costs of energy and the unprecedented pressures to export have undoubtedly spurred the frequent and sometimes shrill debate on the state of industry, both public and private, and the growing realisation that high costs of production and 'sickness' are serious impediments to exporting in a complex and increasingly competitive world market.

Although words like 'technology' and 'obsolescence' are generally used in the limited framework of industry, their relevance just cannot be ignored in other spheres of economic activity. In our country and in our lifetime, the use of modern technology has brought about a sea change in agriculture. Besides plant genetics, a number of other scientific disciplines have also made significant contributions to this success story — chemistry in developing fertilisers and insecticides; physics in managing water and in designing agricultural implements — to mention just two. My purpose here is not to dwell on this particular application of technology, but I would like to make a few passing observations. First, to meet the increasing demand, progress will have to be sustained. Fortunately technology, like demand, is also dynamic and one must remember that only by an ongoing renewal of technology can one prevent this forward thrust from petering out. The second, and possibly more interesting aspect of this development, is that such a radical change has been accepted by our society quickly and quietly. The application of modern technology to industry should likewise quicken growth and enlarge the area of economic progress for our people.

Over the last several years the emphasis on modernising technology has progressively changed the character of Hindustan Lever and this has strengthened it very significantly. I would, therefore, like to share our experience and perspective with you. In modernising we have fortunately had unfettered access to international technology and an in-house Research and Development facility. This combination has proven invaluable in bringing about technological change in a sustained and cost effective manner.

I propose to develop the theme of obsolescence, modernisation, the disadvantages of retrograde technology, and the steps that are being taken and could be taken to develop a viable technology base in today's industrial scenario.

Two major points must be made at the very outset: sustained modernisation is possible only with meaningful access to and awareness of technological developments around the world; and R&D, especially in the larger industries, is invaluable for bringing about this transformation most cost effectively.

A HISTORICAL PERSPECTIVE

India is committed to a mixed economy, but this has posed conflicting and often countermanding choices in investment decisions all along. The modest growth rate of the last 30 years may be the result of this. It is also possible, as some have claimed, that in our complex democratic society, with its wide range of demands and abilities, increasing the growth rate is more difficult. However, the country intends to achieve a much higher rate of growth within the existing socio-economic parameters.

Volumes have been written about the advantages and disadvantages of the economic mix this country has adopted. But the fact remains that throughout the post-independence years, only modest industrial growth has been achieved; profitability in several areas has remained indifferent and the incidence of obsolescence and industrial sickness has increased. Despite this, the country has acquired the distinction among developing nations of a degree of technological self-reliance.

With the improvement of agricultural output in recent years, modest industrial growth could have possibly continued to fulfil our limited needs if the world economic order had not been so badly shaken up in the seventies. Consider the last 40 years: the first 30 years now appear to have been much less difficult than the last 10.

Development since the last World War, whether in agriculture, chemicals, heavy industry or the service industries, was fuelled by energy resources the cost and availability of which had limited relevance to development planning. The growing awareness of a time horizon and the new cost dimension, imposed by OPEC, has brought a completely new, and what sometimes appears to be an unmanageable variable into the development equation.

Economies which are, in a manner of speaking, self-contained, isolated, and poor in energy, feel the buffets more than the affluent societies of the West with a more entrenched industrial base. In our own country it has become crucial to earn foreign exchange to pay for energy. Historically, we have always been forced to innovate and find means of import substitution for many of our needs. Further, the exigencies of the post-independence balance of payments which was always precarious, made worse by bouts of food imports, have never given us a breather. However, now having achieved self-sufficiency in food through a spectacular success in agriculture, our main preoccupation today is to find the resources to meet the escalating cost of oil imports.

Continued inflationary trends are pressing us to increase exports, as well as manage the cost of energy. It is forcing the government, industry associations and

(continued)

LINTAS-HLL.CORP.20-2418 A

Company Meeting: Hindustan Lever Limited

MODERNISING TECHNOLOGY

other public bodies to take a hard and close look at the state of our industry. While our choice may have to be unique to our country and its internal environment, we cannot any longer afford to ignore the world outside. It thus becomes clear that:

a) Industries will have to be more productive and profitable to fulfil internal demands and where appropriate, produce exportable surpluses at a competitive cost.

b) Capital allocation in an inflationary world will have to be more selective and will have to be judged primarily by its productivity per unit investment, in addition to consideration of social costs and environmental repercussions.

c) Energy costs per unit output will have to be reduced.

d) Increasing inefficiency in many industries due to obsolescence has increased the incidence of sickness — a phenomenon we can no longer afford to ignore.

To explain away the pitiable plight of the third world, it was once appealing to believe that 'small is beautiful' or that there was a certain uniqueness where a technology, though obsolete and uneconomic, was deemed to be 'appropriate' for a particular society. One rarely debated about obsolescence, modernisation, capital productivity and technology forecasting in our country with the frequency and din of today. We need to have access to rapidly changing technologies from around the world; collaboration is no more detrimental, as it was once made out to be, and purchase of technology is logical — these facts are at last being recognised as possible solutions to the problems that confront us today. We are now telling the world — come and prospect for oil in our country; let us share your knowhow in technology and we will pay for it — or better, come, let us join hands and you can share in our industrial growth. But the questions are: does the industrialised world find the proposition attractive? Do we have the wherewithal to decide what is best for us from a series of options?

TECHNOLOGY OBSOLESCENCE

In the last few years there has been a tendency in our country to more or less cut ourselves off from continuous access to developments in world technology. This is progressively leading several industries to a state of obsolescence without our even being conscious of it. Take, for example, the automobile industry. Neither the fuel conversion efficiency nor the design of our popular cars has changed over the last several years. The costs have become increasingly prohibitive, quality has deteriorated, and operating costs have become ridiculously high. Similar examples are available in the textile industry, power generation, communication equipment, and in the transport and chemical industries which were established early in this century.

We have merrily gone on paying the price for these inefficiencies without questioning them. Moreover, in recent times, it has been convenient to explain away the high cost of production by invoking the escalating energy cost.

Industries will not feel compelled to modernise as long as their market is sheltered, shortages are widely prevalent, and there is very little competitive edge in the market place. But in industries like pharmaceuticals, where new capacity was created with latter-day technology, the older units started becoming sick and nonviable. Where management is keen to introduce more modern technology there is considerable opposition from the trade unions under the misguided notion that this would increase redundance. The actual fact is that these steps would ensure longer term viability and employee security. Therefore, at a time when there is a need to increase production to meet the increasing domestic demand and reduce costs, to compete in export markets, the manufacturing industry finds itself hamstrung not only by a shortage of productive capacity but also a high cost of production. Basics like power, coal and transportation have become bottlenecks despite adequate installed capacity and potential availability. The story is the same with inputs such as steel and cement. All this clearly reveals the extent of backsliding in virtually all areas of industrial activity, which in turn manifests itself in shortages, high costs and difficulties in the export market.

However, I believe, it has at long last been recognised that if this state of affairs is permitted to continue, the country will find itself in an economically irretrievable position. Solutions to the problems have been known all along; what is new and encouraging is the keen desire to put these into action. In this context modernisation and updating of technology, access to the world's latest developments and the vital role of R&D are well-known routes to repairing economic systems which are having to face the realities of the modern world.

Let us now examine how this problem needs to be tackled.

A STRATEGY FOR CHANGE

If we accept that industry in India needs to update technology and modernise, we must first list its strengths and weaknesses in order to evaluate a strategy for change.

Some of the strengths are:

a) India has industries in virtually all areas of modern technology, from fertiliser manufacture to nuclear power generation.

b) Service industries have progressively improved.

c) Project management and expertise are comparable to world standards.

d) Engineering and fabrication facilities have increased manifold.

e) Indian companies are being encouraged to step up efforts to enter into collaboration and purchase new technologies from international sources.

f) The presence of international companies in many crucial areas of industrial activity in India has given us continuous access to world technology in several fields.

Some major weaknesses are:

a) Modernisation has not been given its due importance either in the public or in the private sector.

b) Hardly any financial incentives exist for investments for modernisation and making existing investments more cost effective.

c) Modernisation is often misunderstood by trade unions as a threat to employment in a job-starved economy.

d) R&D for industrial development and innovation in technology is woefully small and insignificant in most areas.

e) The machinery to evaluate technology purchase from abroad is inadequate.

f) Even when adequate capacity and resources are available, a plethora of regulations leads to gross underutilisation of installed capacity and forces fresh capital investment to create more, but not necessarily more productive, capacity.

Before we discuss strategy, it is also useful to list some other relevant factors:

1) Technology will not be readily available from those who do not have a stake in this country.

2) Transfer of technology is facilitated only when the donor-receiver technology gap is not large. The gap can only be narrowed by establishing an ongoing relationship.

3) The culture of updating and renovating well-proven technologies with more modern knowhow is not easy in a non-innovative and sheltered environment.

4) However, the pressures to modernise

(continued)

LINTAS-HLL.CORP.20-2418 B

17 SEP 1981

Company Meeting: Hindustan Lever Limited

MODERNISING TECHNOLOGY

and innovate, ever present in a free market economy, can only be transplanted in a protected economy under conditions of high inflation (diminished purchasing capacity) and export compulsions.

5) Once-off purchase of technology has the inherent weakness that it does not provide for future developments. It is only a palliative.

6) A strong R&D base is necessary not only to keep pace with the changes in world technology but also to develop the ability to evaluate the extent of obsolescence in any technology being offered.

Our strategy will, therefore, have to consider the following factors:

i) Modernisation
ii) R&D
iii) Capacity utilisation
iv) Access to new technology

i) Modernisation

Modernisation is generated by internal forces in an industrial economy. Its pace and state of modernisation reflects the foresight of the leaders of industry. It is a fact of industrial life that unless an industry continuously innovates or modernises it becomes progressively more inefficient and less productive. In a protected economy, the process of modernisation receives low priority because the cost of inefficiency is normally passed on to the end product. Furthermore, when limited capital is available for investment it is tempting, given the taxation structure and the continuous demand push, to invest in new facilities rather than modernise existing facilities to increase productive capacity and make them more efficient. This in turn gives an illusion of growth and diversification, but closer evaluation of the cost benefit of capital investment is likely to reveal a less encouraging picture.

To quote Peter F. Drucker: "The proceeds of liquidating 'yesterday' are considered 'profit', and are taxed as such, both to the company and the investor. Hence businesses, instead of liquidating the obsolete, have to find new investments in new businesses for whatever cash is being released by the shrinkage of an old technology, an old product line or an old market ... This policy makes it increasingly difficult to shift resources from low and diminishing areas of productivity to areas of high and increasing productivity. It impedes innovation. It also shifts businesses from a technological to a financial focus." This results in a swerve from the scientific and the technological towards the financial, and from the long term towards the short term.

It is not a well publicised fact that the cost of modernisation is infinitesimal compared to its benefits. Most industries which have international links in this country have nurtured a tradition of planning continuous modernisation as a major strategy for being cost effective. Certainly some of our industries such as steel, cement, automobile, power generation and coal mining have no reason why they cannot collaborate with international companies and derive advantages of reduced costs and higher productivity.

I must emphasise, however, that I am not suggesting that the government give a carte blanche for indiscriminate imports of all types of technology. Priority and selective lists can be prepared and freedom given to relevant industries. Imposing some restrictions and time limits will reduce over-dependence and will also force investment in R&D, which is essential in a long-term strategy. Sometimes modernisation is misunderstood as involving only plant and machinery. Modernisation encompasses all aspects of industrial activity, from raw material, process, product design, and information systems to expertise development in fields such as marketing and export. Therefore, decisions to modernise and its scope have to be very carefully evaluated in terms of cost benefit analysis.

ii) Research & Development

Industries are better able to introduce 'changes' and upgrade technology if they have meaningful R&D operations. An R&D unit's function is not only to discover new things but also to continuously monitor existing processes in the light of what is happening in the rest of the world and initiate change. Modernisation based on an on-and-off acquisition of new technology suffers from the inherent weakness of a time lag and over-dependence. One can never be certain that the price being paid is reasonable, or whether the particular choice of technology is the most appropriate. If, therefore, R&D is such a proven and vital part of modern industry, why has it failed, barring a handful of exceptions, to gain roots in industry in India?

It is well known that commitment to R&D requires the ability to take risks. This in turn is forced in a free market economy where the penalties for not innovating fast enough are severe. A classic example of this is the car industry in the West over which the Japanese stole a march by building smaller and more fuel-efficient cars based on their own R&D. On the other hand, the chemical and electronics industries, in the West as well as in Japan, have reaped immense benefits by large high-risk investments backed by their R&D discoveries.

As a country, we are in an ideal position to undertake fruitful R&D on a massive scale. First, we have many special problems in agriculture, chemicals and raw materials, which cry for solution. Second, we have the world's third largest number of scientists and technologists and the confidence and ability to solve many of these problems. Third, the government has long recognised the importance of R&D and has provided very handsome fiscal benefits. And yet very few industries have taken the initiative to set up really meaningful R&D activities in the country. Though in the post-independence period several national and regional institutes were set up, the fall-out and multiplier effect from these into industrial activity have been limited. From our own experience we have learned that it is not enough to undertake good research, though this is painstaking in itself. Much more difficult is the task of translating research findings into manufacturing technology. This requires the commitment and support of the top management to R&D on a longer time-frame than is usual in other business activities, and has also to be protected from the day-to-day pressures and vicissitudes of the business.

R&D has to be an integral part of a business so that its process and accountability become the total management responsibility. To expect existing institutions to fulfil their task from a peripheral position would be taking a limited view of their role and function. Since making R&D an integral part of industry is an activity where we will be starting from a fairly small base, the government needs to consider adopting this route more widely in the public sector industries as well. At the same time, it must be made a pre-condition for private sector industries which are permitted to import technology, either for a new industry or for modernising an existing one.

Ultimately, R&D is an act of faith and commitment, but once a sense of confidence and innovative urge is instilled into the infrastructure, the benefits to local industry as well as to our international competitiveness will be immense and more than justify the costs involved.

iii) Capacity utilisation

Unfortunately, India has many laws rigidly formalised to satisfy requirements rather than to promote efficiency and produce results. Modernisation and R&D aside, in the final analysis, full capacity utilisation of installed plant and equipment is a sine qua non for ensuring the productivity and health of an industry. Therefore the major benefits of undertaking

(continued)

LINTAS-HLL.CORP.20-2418 C

Company Meeting: Hindustan Lever Limited

MODERNISING TECHNOLOGY

modernisation and R&D need to be given due consideration. Relatively minor modifications and investment significantly increase the output efficiency of existing plants and facilities. The simpler and more prevalent method of increasing output is to install additional plants and machinery, without improving efficiency or effecting fuller utilisation of existing capacity. In my experience, any discussion on capacity increase or regularisation or natural growth is looked upon with some suspicion by authorities. A clear distinction exists between enlarging facilities by new installation, and the more efficient utilisation of existing resources. Unless we can find a way to recognise and permit legitimate increases in productive capacity through R&D and modernisation, it will backfire, discouraging innovation and enterprise in industry. The government recognises this and is examining the issue industrywise in order to regularise these where innovation has brought an increase in capacity.

In order to sustain this process, clear norms must be laid down about regularising capacity arising out of the industry's own R&D. Only then can it become a major incentive for investment in research. At the same time, industry must be prepared to open the doors of its research and manufacturing establishment for scrutiny and appreciation by appropriate government bodies.

The government may also consider granting fiscal incentives for capital investment in modernisation and the industrial application of R&D discoveries. This, in addition to the incentive already available for undertaking R&D, would combine to definitely have a large multiplier effect.

iv) Access to new technologies

There is always a need to continuously examine and evaluate new technologies. Even with its own R&D, no industry can expect to develop all the technology it requires. New technology is required for a number of reasons, the chief one being to stay in business by offering improved, new, alternative and perhaps even cheaper, products or services. Economic reasons such as energy and other raw material costs may force process changes, while tighter and more stringent environmental requirements may demand altered, or in some cases, entirely new processes. An industry can stay in business with new products and face competition, either through its own R&D or by purchase and collaboration. Thus, R&D is once again of vital importance. Scientific knowledge is of course freely available through publications but applied research and development is very costly and closely guarded. In future, a limit to new developments may well be set by the availability of finance for R&D, finance which industry must find within its own resources.

Progress in the chemical industry, especially after World War II, was mainly based on petro-chemicals. However, during the last decade, the chemical industry, specially in the US and Japan, and to some extent in Western Europe, undertook massive changes in technology, forced by the pressures for energy conservation. As a result of these efforts phenomenal advantage has been gained by the chemical industry, both in the West and in Japan. It is now pertinent to ask what advantages we can derive from these developments which have taken place during the last decade.

Given the pace of change, the choice of adapting and buying new technologies has become a very complex issue. The inherent danger is that when the rate of obsolescence increases, obsolete technology still appears attractive and is offered for sale to recover a part of the cost of innovation. The question is, do we have a rigorous method for evaluating the cost benefit of modern technology purchase?

In the case of international companies, the situation is somewhat easier. Many of them (though I can only talk about my company), have continuous and free access to the new technological changes that are taking place in sister subsidiaries and in the parent company. It is therefore necessary that companies in this country with free access to international technology, must be carefully guarded and nourished.

Where access is not freely available, there must be a mechanism to evaluate technology needs and provide expertise to determine the best among the choices available. This can be done by an expert body drawn from government and industry specifically set up for this purpose. The important thing here, however, is not only to have free access to new technology, but also the ability to invest in it when it is appropriate and the investment is consistent with national priorities.

A major criterion for evaluation should be the quality and cost of the end product and the strict norms for judging this should be comparison with international prices, thus boosting export potential rather than a price that can be obtained in the local market.

SOME RELEVANT EXAMPLES FROM HINDUSTAN LEVER

Applying the above strategic criteria, I think it would be useful to cite some examples from our own experience. They cover the different aspects such as R&D, modernisation and access to new technologies which have permitted our growth and diversification and enabled us to compete in the international market. The period covers 20 years of modernisation and technological innovation. Change in the company has far outstripped comparable businesses due to a combination of (a) the company's attitude towards innovation and change; (b) its ability to attract and develop a cadre of professional managers who could catalyse these changes; and (c) the ability to seek opportunities for growth and diversification within the framework of local business conditions and national priorities.

Technology change in the company spans three broad phases. First, there were the early changes that were undertaken as a gradual move from semi-manual and time-consuming manufacturing processes to more modern plants and machinery in order to improve efficiency and reduce costs. The change in soap-making from frame-cooling technology to vacuum spray evaporation and continuous stamping and wrapping, or the continuous plant for extraction of glycerine from Processed Triglycerides brought immense benefits in terms of output, productivity and cost reduction at a fairly modest capital investment. There were a number of such steps taken during that period, spurred by R&D work in European laboratories and manufacturing units.

The next phase was the setting up of an R&D centre by the company in 1958, primarily for import substitution. Subsequently, however, this became a major source for modernising existing technology, developing new business opportunities and improving the export capability.

Third was the conservation of energy forced by escalating costs in the seventies. Between 1975 and 1977 our manufacturing units and R&D centre undertook investigations and implemented several ideas resulting in energy savings ranging from 7-14% in virtually all semi-continuous as well as continuous processes. We are now in the second phase of this programme where the energy cost conservation goal is an additional 15-20%.

Possibly the most significant factor in sustaining innovation in the company was the setting up of the R&D centre as mentioned earlier. I will cite a few examples in the following areas to illustrate the point.

1. Raw material

The development of Processed Triglycerides from minor seed oils and the application of synthetic organic chemistry for manufacturing fine chemicals were the first and major contributions of Hindustan Lever's R&D effort. In the sixties the soap

(continued)

LINTAS-HLL.CORP.20-2418D

Company Meeting: Hindustan Lever Limited

MODERNISING TECHNOLOGY

industry was totally dependent on imported tallow and indigenous edible oils. Even the perfumery chemicals used in soaps were blended from imported raw materials. The Indian perfumery industry was in its infancy. Given the adverse foreign exchange situation and fast depleting edible oil resources, the whole industry was in danger of falling sick. Though subsequent developments now appear to be logical, and trivial to some because of the nature of the end product, conditions forced development of sophisticated and new technology and helped revival of an industry.

Success was not only aided by our R&D laboratory, manned by Indian scientists with international experience, but also by the immense and continuous benefits derived from the close contact and cross-pollination of ideas with scientists in Unilever laboratories in Europe, who are recognised world leaders in oils, fats and catalyst research. The multiplier effect of this work has been enormous. The major development of the minor oils industry, the soap industry's growth in the country, and the development of an indigenous hydrogenation catalyst and fine chemicals industry can, to a large extent, be traced back to HLL's work since 1958.

This is an example of how access to international technology and the ability of local scientists and managers succeeded in modernising an industry which depended on imported raw materials, and at the same time led to the development of indigenous raw materials.

2. Transfer of technology

Major efforts were needed to develop systems for translating research discoveries into manufacturing plants and processes. Furthermore, since beneficiation of indigenous raw materials of the type described above was solely relevant to this country's needs, the upscaling of the processes had to be undertaken entirely with indigenous knowhow. Plant and machinery from the West could not be readily imported for upscaling technology. In any case, in many instances, it would not have been appropriate for local raw material. Over the years, several plants and processes have been developed for scaling up the technology developed in the laboratory for the chemical pre-treatment of oils, special hydrogenation techniques using tailor-made catalysts, as well as new energy-efficient plants for saponification and glycerol extraction from Processed Triglycerides.

3. Diversification and change of character

The successful application of R&D and the ability to take risks in new technology in one of many areas cited above, and keeping in tune with national priorities and opportunities, then led to the successful diversification strategy of the company into the core sector.

The development, first of detergent powder in India and subsequently of detergent bars, is an example of extending the availability of safe washing products and supplementing oils and fats used in making soaps. This strategy worked because it came from extensive R&D efforts based on local marketing conditions as well as Unilever's international experience in this field.

The investments in Ossein, Dicalcium Phosphate, Phosphoric Acid, Sulphuric Acid and STPP were based on technologies not traditional to the company. These projects were greatly aided by help from our principals in evaluating various international offers of technology. Our experience to date has convinced us that having antennae in the technology donor world has often helped us in choosing the most cost effective technology offered for sale. As a result of modernising and diversification, the character of the company has changed and today, over 60% of our fixed assets are in the core sector. With the commissioning of these new plants, increased R&D facilities were provided to improve efficiency and explore avenues for further growth and diversification into new areas.

4. Exports

The development of an export market is another area which has been greatly helped by our strengths in R&D and their effect in improving our manufacturing efficiencies. Our export record speaks for itself; it has increased from Rs.17 crores in 1977 to Rs.43 crores last year.

To export per se is not difficult, but in order to develop exports profitably and with long-term commitments we have to satisfy the following conditions:

a) continuously modernise to compete in international markets

b) develop access, find acceptance and maintain continuity in the foreign market place

c) develop technologies which provide special strength in export markets

d) continuously seek new avenues for expansion.

Being a part of an international organisation which has a stake in our development strategy has helped our company a great deal, in not only fulfilling but surpassing our export targets. At the same time, for all of us working in the company, exporting has become a meaningful commitment in the context of the national economy.

The development of a cocoa butter substitute starting from Sal fat at our Research Centre is an example of technological development which arose from a specific marketing opportunity in the EEC countries and the safety and quality assurance which our principals could give on our behalf to the importing nations. Further innovative developments are taking place in this product which will increase export value and volume several-fold. There are several such examples.

5. Future opportunities

Modernisation in Hindustan Lever is continuous: many first generation raw materials are likely to be replaced by new discoveries or better value addition. New process equipment and technologies which are more energy-efficient will have to be rapidly acquired or developed. Many traditional products which have petroleum hydrocarbons as a major source of inputs provide the challenge for alternate raw materials. Biochemistry and genetics are providing new investment opportunities in improving photosynthetic efficiency through agricultural technology. These are a few instances where opportunities match the expertise that is available or can be made available in a company like HLL. These can be increased manifold if the whole industrial horizon in this country is considered.

CONCLUSIONS

I have attempted to highlight a particular facet of Indian industry to which we need to address ourselves rather urgently. If we are to improve industrial production in the country as well as create exportable surpluses, it is necessary to improve capacity utilisation and productivity through modernisation and R&D. Whereas the country has a firm industrial base, and a wealth of scientific and technical manpower, development cannot progress unless we have continuous access to the changes that are taking place in the rest of the world. In order to reduce over-dependence and develop a mature relationship with the technology donors a degree of self-reliance is essential. This can be achieved only if we instil a spirit of innovation and risk-taking into our industrial infrastructure.

Innovations in technologies involve risks. Those undertaking them should be adequately rewarded. If technology is to be regarded as universal property, individual enterprises are unlikely to be interested in incurring costs of innovation.

If we, therefore, accept the proposition that benefits are to be gained from the introduction of technology change, either

(continued)

LINTAS-HLL.CORP.20-2418 E

Company Meeting: Hindustan Lever Limited

MODERNISING TECHNOLOGY

locally or through collaboration, and that in the long term this can be sustained and improved through R&D, especially in the larger industries, it is necessary then to set up a machinery to formalise this activity. This could be undertaken by a task force consisting of representatives from DGTD, the Department of Science & Technology, and industry, to make specific and time-bound recommendations for different categories of industries, both in the public as well as in the private sectors.

The areas to be examined are: modernisation needs, choice of technology, energy conservation, R&D requirements, employment generation and creation of exportable surpluses. In considering these, there has to be a judicious balance between the need to create employment and to provide opportunities for improving the skills of labour, technicians, engineers and management. Such an increase in skills will inevitably lead to higher productivity for the plant and concomitantly lower costs. In addition to increasing availability in the local market, unless an outlet can be found in export markets for the increased production, inevitably the demand for labour will decline. Thus, a balance must be maintained between the demand for employment and efficiency of the plant.

Given the existing constraints in foreign exchange resources, the slow growth of the infrastructure and the escalating cost of energy, some national plan for modernising existing industries, assessing sources of free technology transfer and purchase of new technology is imperative. I am optimistic that we shall succeed. We have demonstrated our ability to shake off the inertia of centuries and achieved impressive results in agriculture, in eradicating scourges like smallpox and made dramatic progress in many other fields. In each case we have had a powerful ally in science.

We have shown that we have what it takes to transform the quality of our lives. We need now the will and the determination to use modern science and technology to make it happen in industry. It is an ideal opportunity for the private sector, the public sector and the government to put their heads together and arrive at a framework for a national technological improvement strategy.

(NOTE: This does not purport to be a report of the proceedings of the Annual General Meeting. If any shareholder wishes to have a copy of this speech in booklet form, please write to: Communications Department, Hindustan Lever Ltd., P.O. Box-409, Bombay 400 001.)

LINTAS-HLL.CORP.20-2418 F

UNICEF Report Urges Promotion of Breast Feeding

A UNICEF report on infant mortality and priorities for child welfare has called for the promotion of breast-feeding as a means of ensuring the survival of millions of threatened children. The encouragement of breastfeeding can make an important contribution to the well-being and development of children, with benefits lasting into adulthood. This has been pointed out in a report by the United Nations Children's Fund to the UNICEF Board recently.

The report, presented by UNICEF's Executive Director, Mr. James P. Grant, to the 30-nation Board, urges the "wide extension" of national policies and services promoting breastfeeding and good weaning practices.

Commending the "important beginnings" made by a number of countries, the report recommends greater UNICEF cooperation in generating better infant feeding practices, particularly in developing countries where unwise weaning habits make the infant death toll 15 times higher than in industrialized countries.

The report says that infant mortality has declined to an average level of 13 per 1,000 live births in industrialized countries, but it is still at 120 per 1,000 live births in developing countries (excluding China), where there are 11 million infant deaths every year.

Deaths during the period of weaning in developing countries at a level 15 times higher than in industrialized countries.

While pointing out that infant mortality depends on many factors, the report says experience shows that better infant feeding practices can make an important contribution to reducing infant deaths.

Breastfeeding avoids external sources of infection, conveys protection against infection, and produces a better nourished and more resistant infant, especially in families which cannot afford the necessary quantities of breastmilk substitutes and lack the facilities to prepare them properly, such as clean water and sufficient fuel for sterilization.

NUCLEAR POWER TO BE AUGMENTED

Six additional reactors, each of 230 mW capacity, based on the design adopted for the reactor under construction at Narora, will come up during the Sixth Plan. An outlay of over Rs. 1,000 crores has been provided in the Plan for this purpose. Nuclear power programme for the next 20 years includes 10 such reactors followed by 12 reactors of 500 mW each.

A massive programme of generating additional 80,000 mW electrical power has been envisaged by the year 2000. It means that about 4,000 mW will be added every year during the next 20 years, thus raising the total power generation from present 30,000 mW to 1,10,000 mW. The nuclear stations will contribute 10,000 mW while 30,000 mW will be obtained from hydro-electric and 40,000 mW from coal-fired stations.

TISCO Records Better Performance

THE performance of the Tata Iron and Steel Company Limited during the year ended March 31, 1981 was marked by higher turnover, higher profit and higher equity dividend. The company's turnover increased from Rs. 455 crores in 1979-80 to Rs. 521 crores in 1980-81, partly as a result of the increased steel prices which became effective from February 9, 1981 and, to some extent, due to the decontrol of bars and billets. The gross profit has shown an increase of nearly Rs. 30 crores, from Rs. 57.95 crores in 1979-80 to Rs. 87.86 crores in 1980-81. After providing for depreciation and interest, the pre-tax profit stood at Rs. 52 crores, against nearly Rs. 25 crores in 1979-80. The profit after tax stood at Rs. 26.46 crores against Rs 15.93 crores in the previous year. The Directors have recommended an equity dividend of Rs. 15 per share compared to Rs. 13.50 in 1979.80.

Subject to the approval of the shareholders and the consent of the Controller of Capital Issues, the Directors recommend an issue of Bonus shares to the ordinary shareholders in the proportion of two new fully paid ordinary shares for every five existing shares, by capitalising Rs. 20.58 crores from the General Reserve. The Directors have also decided to issue secured Convertible Bonds of an aggregate amount of Rs. 30 crores with a view to raising additional long-term funds to strengthen the working capital resources of the company.

Lower Turnover by Gammon India

GAMMON India Limited has recorded a 7 per cent decline in its turnover, from Rs. 39.24 crores in 1978-79 (year-ended Juiy 31) to Rs. 36.47 crores in 1979-80. This is largely due to the decline in the volume of overseas work. However earnings before depreciation and investment allowance were higher, at Rs. 3.22 crores, against Rs. 3.08 crores in the previous year. The pre-tax profit is lower, at Rs. 55.36 lakhs, compared to Rs. 74 lakhs in 1978-79. Owing to the lower tax provision, the operating profit stood higher, at Rs. 48.90 crores. The company's order book position is satisfactory. At the end of the accounting year, the balance of work on hand stood at Rs. 74.57 crores, against Rs. 55.44 crores at that time in the previous year. Orders on hand are worth Rs. 130 crores. Equity dividend recommended is Rs. 1.80 per share.

Better Showing by Food Specialities

THE turnover of Food Specialities Limited has gone up from Rs. 44.96 crores in 1979 to Rs. 51.75 crores in 1980, representing an increase of over 14 per cent. While there has been a marginal decline in the company's pre-tax profit from Rs. 5.59 crores to Rs. 5.43 crores, the after-tax profit was slightly higher at Rs. 2.02 crores, compared to Rs. 1.66 crores in 1979. The equity dividend adds up to Rs. 2 per share. With the allotment of bonus shares last year, the company's paid up capital stands increased at Rs. 4.50 crores. The company's foreign exchange earnings amounted to Rs. 14.04 crores.

Good Results By Tribeni Tissues

DESPITE power cuts and the poor quality of coal supplied to its boilers, Tribeni Tissues Limited recorded good results in 1980. Against Rs. 23.54 crores during the 15 months ended December 1979, the company's sales turnover stood at Rs. 21.95 crores during the 12 months ended December 1980. The figures thus are not strictly comparable. The pre-tax profit amounted to Rs. 2.33 crores in 1980 (12 months) against Rs. 2.41 crores in 1979 (15 months). During these two periods, the after-tax profit stood at Rs. 1.60 crores and R. 2.07 crores respectively. Equity dividend recommended is 16 per cent.

There was a marginal improvement in export, which stood at Rs. 1.17 crores. When the company starts manufacturing medium and high porosity paper, it will be in a position to earn more through exports. Further, the lifting of the ban on non-traditional items like hemps pulp and news airmail tissue should help in boosting the company's exports this year.

Kamani Engineering Sells More

KAMANI Engineering Corporation Limited has recorded a 39 per cent rise in its turnover, from Rs. 34.03 crores to Rs. 47.44 crores during the year-ended September 30, 1980. Inspite of this improvement in performance, the Directors point out that in view of the uncertainties inherent in international operations, it would be desirable to take a conservative view of the financial position of the company. The production of transmission towers was higher by 4 per eent and despatches of the same were higher by 17 per cent. There has been a 46 per cent increase in the turnover in respect of the re-sale of goods for turn-key projects. The pre-tax profit stood higher at Rs. 5.98 crores (Rs. 4.65 crores in 1978-79) and the after-tax profit improved from Rs. 2.44 crores to Rs. 4.08 crores. Equity dividend recommended is Rs. 2 per share.

Better Performance By BASF India

THE sales of BASF India Limited during 1980 amounted to Rs. 17.11 crores, compared to Rs. 15.88 crores in 1979— thus showing a 7.7 per cent growth. Produce-wise, the sales of agro chemicals rose by 34 per cent while those of dyestuffs rose by 22 per cent. The sales of speciality plastics recorded an improvement of 18 per cent. There has been a decline in the company's pre-tax profit, from Rs. 1.92 crores to Rs. 1.25 crores. Equity dividend is maintainad at 20 per cent.

For its projects at Bokaro (Bihar) and Thane (Maharashtra), the company has secured sanctions for a term loan of Rs. 3.50 crores in addition to a foreign currency loan of Rs. 94 lakhs. The company's bankers have agreed to provide another loan of Rs. 1.50 crores to finance these projects. Taking advantage of the provision for "automatic growth" under the new industrial policy, the company has plans to expand production.

8.25 per cent Increase in API's Turnover

AUTOMOBILE Products of India Limited recorded a 8.25 per cent increase in its turnover from Rs. 22.46 crores in 1979 to Rs.24.32 crores in 1980. While the company faced competition in the scooters market, it stepped up its sale of 3-wheelers by 33 per cent. The gross profit stood at Rs. 1.44 crores, against Rs. 1.71 crores in 1979. The carry-forward net loss has been brought down from Rs. 2.39 crores in 1979 to Rs. 1.75 crores in 1980. At Rs. 37.34 lakhs, the company's exports showed an increase of 26 per cent. The company is in the process of introducing dieselised 3-wheelers and new types of clutch and brake system. This is expected to improve the company's market share.

Fibreglass Pilkington To Issue Debentures

FOR the year ended March 31 1981, Fibreglass Pilkington Limited has increased its sales by 15 per cent to Rs. 11 crores (9.57 crores last year) and its profit before tax by 17 per cent to Rs. 1.56 crores (1.33 crores last year). To conserve internal resources during the implementation of the Company's modernization programme now being undertaken, the Directors have decided to maintain the dividend at 16 per cent. After providing for taxation for the year of Rs. 89.38 lakhs and allocation to investment allowance reserve account of Rs. 11.25 lakhs the Directors have appropriated Rs. 41.47 lakhs towards the proposed dividend and Rs. 34.78 lakhs to reserves. In order to increase profitability and maintain growth by modernising plant and equipment, the company proposes shortly to issue secured debentures of Rs. 2.62 crores. Each secured debentures of Rs. 156 face value will have an option to get redeemed Rs. 56 thereof and carry a right to apply for 4 equity shares at an issue price of Rs. 14 per share, subject to the consent of the Controller of Capital Issues.

Cable Corporation Steps up Production

DURING 1980, the sales of Cable Corporation of India Limited recorded an increase of 54 per cent, from Rs. 31.42 crores to Rs. 48.29 crores. The demand for cables and wires was good and the company was able to take advantages of this by increased production resulting from its rationalisation programme. The programme was expectd to be fully implemented in 1981. The demand for paper insulated cables from U. S. S. R. was encouraging and enabled the company to deliver for exports cables worth Rs. 4.78 crores during the year. There has been a significant change in the marketing pattern of the Company's products during the year. The company had to take over, with effect from July 1 1980, marketing of its own products as Siemens India Limited were directed under FERA to restrict its trading activities. Equity dividend adds up to 16 per cent.

Duncan Brothers Earns Less

THE total sales and other income of Duncan Brothers Limited, which stood at Rs. 2.24 crores in 1979, came down to Rs. 1.25 crores. The Company's pre-tax profit declined from Rs 81.70 lakhs in 1979 to Rs. 73.74 lakhs in 1980. The company has paid equity dividend at the rate of Rs. 6 per share. At Rs. 8.91 crores, the market value of the company's investments show an appreciation by Rs. 93 lakhs over the previous year.

Herdillia Chemicals Blazes New Trails

HERDILLIA Chemicals Limited recorded 26 per cent growth in its turnover during 1980. From Rs. 30.25 crores, the company turnover increased to Rs. 38.17 crores. However, the pre-tax profit declined from Rs. 7.03 crores in 1979 to Rs. 6.58 crores in 1980. Part of this decline is attributed to the drop in the sale of phenol. The tax burden was lower, due to higher capitalisation. This resulted in a higher after-tax profit of Rs. 3.03 crores.

The company's R & D efforts have started bearing fruit. On receipt of the necessary licences, it will be putting its own processes to use, for recovering by-products. The renovation and modernisation of the Cumene/Phenol plant is expected to be completed in the 2nd quarter of 1981. Steps are in hand to improve the utilisation of the Phthalic Anhydride plant by the end of 1981. This will be the first plant in India to switch over to the new "low energy" technology. The company has also invested sizable amounts for installing energy-saving and pollution–reducing equipment.

Higher Exports By Blue Star

Blue Star Limited has achieved all-round progress in 1980. Its total income rose by 25 per cent, from Rs. 34.82 crores to Rs. 43.56 crores. However, the rise in profit was not of the same magnitude. Pre-tax profit rose from Rs. 1.54 crores to Rs. 1.76 crores while the after-tax profit increased from Rs. 58 lakhs to Rs. 70 lakhs. The company has stepped up the equity dividend from Rs. 1.50 per share to Rs. 1.70 per share; taxable. Since the company's new unit at Bharuch (Gujarat) has been commissioned last year, it will add to the current year's turnover. The company's exports have risen from Rs. 80.33 lakhs to Rs. 1.30 crores, as a result of the introduction of new items in the markets of Africa and Middle East.

SOUTHERN
ECONOMIST

July 15, 1981

CONTENTS

EDITORIAL 1
An Incomplete Package

CURRENT TOPICS 2
If Self-sufficient. why import Wheat?; Unjustified Hike in Oil Prices; Was Sugar import necessary?; Airlines too will feel the Pinch; Downturn in prices of Coffee, Tea; Improved outlook for Power

GLASS HOUSE GOSSIP 5

INDIAN BANKING: MID-YEAR SURVEY *Page 7 to 41*

BANK RESULTS 43
Bank of Baroda; Bank of India; Punjab National Bank; Central Bank of India; Bank of Maharashtra; Union Bank of India; Indian Overseas Bank; Syndicate Bank; Indian Bank; Gridlays Bank; State Bank of Mysore; State Bank of Travancore; Saurashtra Bank; Patiala Bank; New Bank of India; Vysya Bank; Karnataka Bank; Federal Bank

COMPANY NOTES 47
Atlas Copco; Telco; Mukand Iron; Orissa Cements; Killick Nixon; Shalimar Paints; Sylvania & Laxman; Wimco; Hoechst Dyes; Indian Oxygen; Alembic Chemical

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
This Issue Rs. 3-50

SEP 1981
C.F.T.R.I., MYSORE

An Incomplete Package

THE Government has at last presented the promised anti-inflation package. It is far from being a tidy and compact package since it does not contain mutually-reinforcing measures to bring down the rate of inflation to a single digit. It lacks the necessary ingredients of success, on the supply side as well as the demand side. The supply side remains virtually untouched, except for the decision to import wheat, sugar and edible oil. The cynic will not be slow in pointing out that it will be taken care of, by the under-world of unaccounted money.

The main thrust of the measures announced on July 11 is towards slowing down monetary growth which was 18 per cent in 1980-81. In 1981-82, so far, it has continued at about the same rate. To bring this rate down, the Government has, through two ordinances, raised the rates of compulsory deposits made by income tax payers in higher brackets and placed a curb on *benami* deposits by providing for their repayment only by account-payee cheques or bank drafts. Welcome as these measures are, they are unlikely to make any dent in inflation. Similarly, the announcement of a hike in the Bank rate from 9 per cent to 10 per cent is largely of symbolic significance, since the linkage between the Bank rate and the structure of interest rate remains broken. Since the Bank rate was raised to 9 per cent, in July 1974, changes in interest rates have taken place several times without reference to the Bank rate.

But the other supporting measure to slow down the growth rate of credit—the non-food credit has risen rather sharply in the first quarter of 1981-82—are harsher in their impact. These measures include (a) the raising of the minimum margin on sensitive commodities by 10 per cent; (b) the advancement of the date of the enforcement of the new cash reserve ratio (7 per cent) from September 11 to August 21 and (c) the raising of the statutory liquidity ratio in two phases from 34 to 35 per cent. They are likely to cause a shrinkage in bank credit to the extent of Rs. 800 crores. This is admittedly an incomplete package and no significant improvement in the price situation can be expected from it. If the Government is keen on halting the price spiral, it should adopt more comprehensive and drastic measures aimed at (1) increasing production in the short run through assured supply of inputs and avoidance of work-stoppages; (2) preventing the hoarding of commodities that are in short supply; (3) streamlining the public distribution system in order to protect the vulnerable sections (4) reducing Government expenditure in non-essential areas and (5) ensuring controlled and balanced growth of all incomes and all kinds of profits.

In the next "package" that the Finance Minister will bring forward soon, one can expect more drastic measures like a curb on the payment of dividends, a partial freeze on additional dearness allowance to Government employees and a moratorium on certain types of Government expenditure. His immediate objective should be to bring down the budgeted deficit for 1981-82 to a manageable level.

CURRENT TOPICS

If Self-Sufficient, Why Import Wheat?

THE Government's decision to import 1.5 million tonnes of wheat from the United States is hardly likely to dispel the scarcity psychology created by its failure to procure enough wheat within the country for the public distribution system. But it need not be made much of, as the opposition politicians seem to be doing. This year, the Government is going to import not only wheat but also sizable quantities of edible oil and sugar. These two items stand on somewhat different footing but in the case of wheat, we had a record production of 36 million tonnes in 1980-81. This, together with the official stocks of 7.5 million tonnes, would have been more than enough to last till the arrival of the 1981-82 crop which is also likely to be a good one.

What has probably unnerved our food planners is the possibility of the current year's wheat procurement falling short of the previous year's collection by two to three million tonnes. But they are likely to be disappointed in their expectation that wheat imports, at the level planned, will cause substantial de-hoarding. So long as the imported wheat costs higher than the home-grown wheat—the difference is nearly Rs. 30 per quintal—the trader has nothing to fear. And the import of high-priced wheat will only strengthen the demand of the farmers in Punjab and Haryana for a higher procurement price.

Since official policy frowns on subsidies, the consumer has to brace himself for a higher issue price. Even at a higher issue price, the offtake from the public distribution system is likely to go up till such time that the private trader de-hoards his stocks in anticipation of another bumper wheat crop. Assuming that the Government's crop estimates do not contain a large margin of error, one may hope that the quantities lying with the farmers and the private traders will surface sooner or later. The import of 1.5 million tonnes, by itself, is not likely to hasten this process. On the other hand, imports—even token imports—are likely to be construed as a sign of vulnerability.

Unjustified Hike In Oil Prices

ALTHOUGH the beastly hike in the domestic prices of petroleum products, announced on July 10, is made to appear as part of the Government's anti – inflation package, the real purpose is to reduce the budgetary gap which has widened from Rs. 1,539 crores to well above Rs. 2,000 crores. Coming on the top of the two increases already announced — the first increase on June 8 and the second hike on January 13 — the latest revision will not only add to the inflationary spiral but also aggravate the hardships of the people. While the two earlier price increases had spared mass consumption items, the increase announced on July 10 makes no such distinction between domestic users and industrial users.

While there can be no two opinions on the need to conserve energy and to reduce the foreign exchange outgo on account of the import of crude oil and petroleum products, it is wondered whether a further increase in the domestic prices will, by itself, bring about a fall in consumption. Experience has shown that oil being an essential item in the total enegry picture, demand remains practically unresponsive to the price changes. In such a situation, the increased cost of petroleum products will be passed on to the other sectors. An increase in transport cost by, say 5 per cent, will be reflected in the prices of practically all the manufactured products. Again, the increased cost of petroleum feed-stock will cause a rise in the prices of petroleum-based fertilisers. This will, in turn, cause a rise in prices of agricultural commodities, across the board. True, oil imports in 1980-81, at about Rs. 5,600 crores ate away nearly two-thirds of our export earnings. But since domestic crude production has gone up during the current year, one can expect a saving of about two million tonnes in crude imports and about 3.5 million tonnes in the import of petroleum products, thus bringing down the oil import bill to about Rs. 4,855 crores in 1981-82. The policy makers must be aware that and attempt at further effecting savings on oil account would be counter-productive. This month's increase in domestic prices of petroleum products is hardly likely to cause a further reduction in the quantity imported.

None the less, the latest exercise is beneficial to the extent that (a) it reduces the dependence of ONGC and Oil India on budgetary support, in view of the increased cost of domestic crude and (b) the additional accruals amounting to about Rs. 825 crores reduces the budgetary gap to that extent. But the argument that the large amount of funds needed for oil exploration should come mainly or wholly from the consumers in the oil sector is far from convincing. The level of investment in these activities is based on certain national priorities; surely, the prospective consumers are not directly involved in the "gamble". Since, in any case, the demand for oil is expected to be covered by domestic supplies to the extent of 50 per cent by the end of the decade, the Government could have continued with a formula based on a "mix" of actual domestic cost (of producing crude) and the cost of imported crude. The price-hike will no doubt help in reducing the budgetary gap—but not without triggering another round of price-increases. A case of the dog chasing its own tail.

Was Sugar Import Necessary?

AMONG the three commodities which are to be imported, according to the Government's latest decision, the import of sugar may not have been necessary when one considers that production in 1980-81 was nearly 52 lakh tonnes and the output in 1981-82 is placed variously between 65 lakh tonnes and 70 lakh tonnes — an all-time record. With domestic consumption estimated at around 55 lakh tonnes and the availability, including the carry-over stocks, estimated at 77 to 78 lakh tonnes in 1981-82, the position appears to be quite comfortable. In fact, the industry is hopeful of re-entering the export market in a small way next year.

Just when the sugar industry is advocating decontrol, with statutory price for sugarcane, the Government's decision to import a token quantity of 2 lakh tonnes appears whimsical, to say the least. Apart from the depletion of a sizable amount of the scarce foreign exchanges resources this will cause, it will also have the unintended effect of hardening the price since imported sugar will cost more than the levy price. As in the case of wheat, the purpose seems to be to discourage hoarding but the import is of such small quantity, in relative terms, that it is unlikely to cause de-hoarding. As we pointed out in another context, the very idea of importing a consumer item smacks of a scarcity-psychology. Furthermore, with sugar prices showing a softening trend in the market — prices have come down from the peak of Rs. 900 per quintal in mid-April to around Rs. 640 at present — there was no compelling need for making sugar purchases abroad.

Airlines Too Will Feel the Pinch

LAST week's hike in the prices of petroleum products, including aviation fuel, has caused a rethinking on the profit-outlook for the country's two airlines—Indian Airlines and Air-India. Both the airlines, which have been considering a fare increase for some time now, will have to include in their calculation the resultant addition to the fuel bill. While Air-India will probably contain its fare and freight increase within the 5 per cent limit indicated by IATA, to keep in step with other international carriers, Indian Airlines is likely to increase its fares well beyond 10 per cent.

The proposed increase in the fares—fuel surcharge to be more precise—by over 10 per cent by Indian Airlines is bound to cause a reappraisal of the estimated annual growth in passenger traffic at 15 per cent. This will be the third fare hike within an year, the previous two increases being effected in June 1980 and January 1981. No doubt, the airline will be justified in putting up the fares just to keep its head above water but it cannot rule out a deceleration in the growth rate of passenger traffic, even assuming that most of its passengers are either businessmen or Government employees in higher grades.

The adjustment will be no less painful for Air-India which has just come out of the red. Against a loss of Rs. 21.25 crores last year, Air-India expects to earn a modest profit of Rs. 1.5 crores this year. Even with the increase in fares by 5 per cent, and with concessional purchase of aviation fuel abroad, increased fuel bill is likely to erode its profit margin. For the first time, Air-India exceeded the Rs. 500-crore mark in its revenues last year, showing an impressive growth of 28.4 per cent. Whether this will be improved upon in the current year depends on several factors, including its ability to attract more of ethnic traffic and the Gulf traffic.

Downturn in Prices Of Coffee, Tea

NO news is good news for the tea and coffee planters in India. Prices of both the commodities have been sliding in the world market since the beginning of the year and the inexorable rise in production-costs has rendered the growers' position most vulnerable. Last year (1980) was a good one for tea, with production reaching a record level of 576 million kg. against 548 million kg. in 1979. Exports also were higher than in the previous year, both in terms of quantity and unit value realised. Production outlook for 1981 is still hazy. If the trends during the first five months of 1981 are any indication, the year's tea production is likely to show a sizable fall. Considering that India and Sri Lanka account for the bulk of world tea production, it is wondered why the decline in these countries has not led to a hardening of prices in the London auctions. An UNCTAD-sponsored meeting of tea exporting countries at Geneva has not led to any agreement on export quotas — an outcome which must have pleased major consuming countries like U. K.

The position of coffee is no different. Prices have declined both in London and in New York. Quota reductions, effected thrice under the International Coffee Agreement have not been of much help. Smaller producers are concerned that Brazil, which hopes to harvest the best crop in 16 years— an estimated 1.92 million tonnes— may cause a collapse of the Agreement by unloading large quantities in the World market. Abolition of the export duty has helped the hard-pressed growers but the continuing downswing in export prices, coupled with the cost escalation, has put a squeeze on the growers' profits. Understandably, they are demanding an upward revision of the minimum release price administered by the Coffee Board, which is possible only with a sizable increase in domestic prices.

Had there been a bumper crop in 1980-81, the Coffee industry will have partly made up for the decline in export earnings but at 1.05 lakh tonnes, this year's estimated crop is lower than that of last year bv nearly 40,000 tonnes. Under the circumstances, it may not be the height of wisdom to step up domestic prices on the plea that coffee prices have grown only half as fast as the prices of other commodities. According to some reports, internal consumption is not growing at the rate of 3 per cent assumed for the Sixth Plan which envisages internal demand to go up to 58,000 tonnes by 1984-85. This may be due to the tendency among retailers to mix more chicory to the powder sold or due to consumer resistance following the rise in the prices of both milk and sugar which make up the "cup that cheers". The Board's internal releases— 47,683 tonnes in 1980 against 49,648 tonnes in 1979— do not indicate a precipitous decline.

Besides, any one who is familiar with the subterfuges of coffee growers and merchants will agree that a modest percentage of coffee sold in the internal market comes from outside the Board's marketing system. Even if 5 per cent of what is sold reaches the consumer in this manner, the internal supplies will have gone up by 2000 to 3,000 tonnes a year. Our own view is that the natural demand for coffee in the country should show a growth of 5 per cent per annum. The planners' stipulation of a lower growth (3 per cent) for domestic consumption and a higher growth (5.5 per cent) for exports is dictated not by objective considerations of income growth and change in habits in the country but by how the industry can maximise its earnings. This explains the dilema facing the coffee growers in the country.

Improved Outlook For Power Generation

MR. Ghani Khan Chaudhury, Union Minister for Energy, who addressed the Parliament's Consultative Committee on July 3, sounded optimistic over the power outlook in 1981. This optimism stems from two factors, namely, better capacity utilisation at the thermal stations—from 41.5 per cent in June 1980 to 52.2 per cent in March 1981—mainly due to increased supplies of coal and the assurance of normal working of the hydel stations in view of the timely onset of the *monsoon* in most parts of the country. In the second half of 1980-81, the power generation rose by 13 per cent, with thermal generation increasing by 15 per cent and hydel power generation by 10 per cent over the corresponding period of 1979-80. Since then, there has been a steady increase in power supply. In 1981-82, power generation will be of the order of 122 billion units, compared to 111.5 billion units in the previous year. With the demand estimated at 137 billion units, the shortfall during the year will be of the order of 15 billion units.

So far as the southern region is concerned, the overall power dificit in 1981-82 (July to June) is estimated at 4,712 mW. How much of it will be covered by the commissioning of the on-going projects is not clear. During 1980-90, there will be an addition of 7,702 mW to the southern region's capacity and a small part of it will be added in the current year. While the position in Andhra Pradesh and Kerala will remain comfortable, till industrialisation gathers momentum in these states, the power supply position in Tamil Nadu and Karnataka will remain precarious till the on-going and new projects are commissioned.

In Karnataka, the 33 per cent cut, which has been in force since December 1980, is likely to be lifted during the coming *monsoon* months when the main reservoir, Linganmakki, normally gets filled. The power output in the state in 1980-81 was higher by 17 per cent than in 1979-80. There should be a further improvement in hydel generation in 1981-82. The near-term outlook for the state is good when one considers that the remaining units of the Kalinadi will be commissioned, by stages, and the Raichur themal plant (two units of 210 mW) will be completed before 1985. Another 727 mW is expected to be added during 1985-88 when Kalinadi Stage 2, Gangavali and Varahi hydet projects come into being. Since Karnataka is also entitled to a share in the central sector super thermal stations at Ramagundam (2,100 mW) and at Neyveli (630 mW initially), the fear of a power famine occuring in the late 80s can be ruled out. Considering that a sizable hydel potential remains to be tapped in Karnataka, the planners should hasten with the task of locating suitable site for new projects.

Glass House Gossip

WORK, Oscar Wilde said in one of his witticisms, is the curse of the drinking class, parodying the familiar aphorism that drink is the curse of the working class. I am reminded of both these sayings when I saw with my own eyes the agony of hundreds of men and women who had been brought to the city hospitals— hopeless cases of liquor poisoning. The death toll of last week's hooch tragedy has exceeded 300, at this writing. Possibly, the figure could be close to 400, since a good number of the liquor poison victims must have died in their little slum hovels, escaping the head-count at hospital morgues. This year has been a particularly bad one for Bangalore which witnessed many disasters, big and small. In particular, I may recall the circus fire which resulted in the death of over 200 persons.

This is not the first liquor disaster to happen in the country although it is the biggest so far. In this decade alone, liquor poisoning took a toll of 100 persons in Delhi, 200 in Dhanbad, 115 in Madras and 120 in Indore. That illicit liquor is injurious to health is not denied but drinking the stuff seldom causes death so long as it does not contain toxic ingredients. Even if the "concentrate" sold by the illicit liquor manufacturer to the "underground" vendors does contain injurious substances, they become less harmful through the diluting process.

Strictly speaking, sale of illicit liquor should not be much of a problem in 'wet' states. Till recently, I was under the impression that it is only in 'dry' states, where people are denied access to alcoholic drinks, that illicit distillation flourishes. I am beginning to realise that this is no longer the case. The bizarre economic theory of ID runs something like this: Cost has an important bearing on demand so far as working class drinks— primarily arrack and toddy — are concerned and the prices of even these plebeian drinks have gone up sharply in the recent years. Under the existing system in which area-wise selling rights are auctioned to the highest bidder, irrespective of considerations of cost, the excise contractors can avoid loss— and make profit— only by diluting arrack and toddy and, possibly, by adding other ingredients to make the stuff go a longer way.

Parallel to this activity is the manufacture and sale of illicit liquor— a sub-standard concoction which defies description. The nexus between the excise contractor and the manufacturer is not clearly established but there is strong possibility of a relationship. The poorer sections go in for illicit liquor because (a) it is sold cheap and (b) it gives a better "kick". Even the manufacturers of ID liquor have their own time-tested formulas— jaggery, barks of trees, rotten fruits, cow dung, waste material found in battery cells, frogs and what have you— but the trouble arises only when they experiment with new and potentially toxic things like methanol.

If they had known that the new brew would kill their customers wholesale, they would not have used it; and if the customers had known that they would meet with certain death, if they consumed it, they wouldn't have gone anywhere near it. The other day, the Excise Commissioner wept like a child in the State Assembly when the issue of liquor deaths was being debated. He had reason to. If his men had done their duty, rising above mercenary considerations, probably most of these deaths could have been avoided. Governments, like the people they govern, are always wiser after the event.

□ □ □

Londoners, who are looking forward to the royal wedding later this month, must be feeling terribly uneasy over the rash of race riots which are rocking many cities and towns in Britain. I am not so pessimistic as to believe in Enoch Powell's dire prophesy that Thames will flow with blood but last week's riots will surely provide the racist leader an excuse to proclaim: "my predictions are coming true". This will also provide an opportunity to the lunatic fringe on the right to demand more stringent curbs on immigration. They do not seem to be satisfied with the Nationality Bill— now passed into law— which is harsh enough.

It is a pity that such ugly events are taking place in a multi-racial society which is known for its tolerance and its respect for law and order. With only 5 per cent of the country's population being non-white, the Britons need not feel unduly worried over the prospect of being swamped by immigrants. The prevailing high rate of unemployment in Britain, as in many industrial countries, has understandably caused some amount of resentment over the Asian and West Indies immigrants taking up jobs there. But the Britons should not forget that the jobs taken up by the coloured people are mostly those in which the average British youth is not just interested.

Paki-bashing (roughing up coloured people in the streets) by the skinheads is not a new phenomenon in U. K. but, in the recent months, it has assumed frightening proportions. What surprises me is the fact that the police in Britain, who are known to be more efficient and impartial than their counterpart in several other countries, have been too soft towards the skinheads and too harsh on the coloured people involved in the riots.

□ □ □

THE one and only thing I like about the Khalistan movement—the agitation for a sovereign state in the Sikh majority areas—is its aversion to tobacco. The Khalistan movement, in my view, is an exercise in one-up-manship among the Sikh leaders. At the moment, I know so little about the anatomy of this secessionist movement that I cannot express my views on it one way or another. But about their anti-smoking campaign, I can say without any hesitation that they have my full support.

In my thirties, I used to smoke three packets a day. One fine morning, without any provacation or prodding I gave it up, may be, because I realised I had had enough; may be because it stained my fingers; may be because it was not a plus-point with the fair sex; or it could be that the cigarettes literally burned holes in my pocket. But the fact remains that I have not touched a cigarette for well over two decades. That, I know, is not a good advertisement for ITC which proclaims, on its packets, the warning: "Cigarette Smoking is Injurious to Health".

I am often temped to ask: If it is injurious to health, why on earth are they selling it by the millions? But life is full of contradictions. Even the Shavian aside, "fire at one end and a fool at the other", is not particularly appropriate since quite a number of Indians (in Andra Pradesh) prefer to have both the ends on the same side. I am referring to the Andhra ladies of the tobacco-growing area, who enjoy keeping the lighted end of the cigar inside their mouths. If there is a Freudian explanation, a psychologist is better equipped to offer it.

It is no laughing matter in India which is the third largest producer of tobacco in the world, probably next to United States and Zimbabwe. Even Sharad Joshi, who ought to know everything about the evils of smoking, had organised a tobacco growers' agitation demanding higher prices for the product. How can he say, then, that he is not part of the tobacco lobby? How can any organised society approve of a product which is the cause of 90 per cent of all lung cancer deaths, 25 per cent of the deaths resulting from cardiovascular diseases and 75 per cent of the deaths resulting from chronic bronchitis?

If the growing of poppy can be banned all over the world, what prevents the Governments from banning the growing of tobacco? The task, in India, is no doubt challenging when one considers that the majority of the Indians use tobacco in some form or the other. The village folk use it either in the form of *bidi* or with *pan* for chewing. And the habit of smoking cigarette is widespread both in the rural parts and in the cities. Weaning the people away from their addiction to lady nicotine is not easy but our policy makers should start thinking along these lines. Surely, adults with a taste for the roasted Char Minar cannot be expected to derive the same satisfaction by thumb-sucking or chewing pencil-ends (I tried the latter, without much success).

There is then the question of switching over the land (tobacco is grown on some 4.50 lakh hectares in India) to some other crop. These problems are not, however, insurmountable. A ban on tobacco growing and cigarette and *bidi* making will result in a "loss" of the excise duty income running to nearly three digits. There will then be the "loss" of about Rs. 45 crores which India is earning every year by exporting tobacco. Significantly, the World Health Organisation has declared a total war on the use of tobacco—particularly cigarette-smoking. Since tobacco poses a great danger to public health, our Government should not hesitate to take stringent action to counter this evil.

□ □ □

I SHARE Mrs. Gandhi's concern, expressed during her press conference last week, over the supply, in squadron strength, of the U. S.-made F-16s to Pakistan. Although I am not sure whether the supply of these aircraft to Pakistan will seriously upset the military balance in favour of that country, I am inclined to agree with the Prime Minister's assessment of the new situation. Pakistan's shopping list, apparently ticked off by the Reagan Administration, does not halt at the F-16s. It is pretty long. It includes six hundred M-60 tanks, over 500 armoured personnel carriers, nearly 600 sophisticated guns for its artillery regiments, 2000 anti-tank missiles and 40 helicopters. While Pakistan will have acquired, by 1985, some 60 F-16s (may be, even less), India will have, by then, four Jaguar squadrons, ten MIG-23/27 squadrons and 16 MIG-21 squadrons. By the end of the decade, India will also be having Mirage-2000s in squadron strength.

All the same, Mrs. Gandhi is right in pointing out that the strike capability of F-16 is at least three times that of our MIG-21. This is my tentative assessment: Pakistan can always make a surprise first attack and get away after inflicting extensive damage. But a retaliatory attack by India — by air and on land — will destroy practically all the strategic establishments located in that country.

— **Plebeian**

INDIAN BANKING: MID-YEAR SURVEY

Are Credit Targets Sacrosanct?

By THE EDITOR

WHEN we surveyed the Indian banking scene in our April 1 banking number, we had struck a cautious note stating that the results of most banks, when published, may reveal an erosion in their profitability. We are proved wrong. Most scheduled commercial banks have shown an improvement in their net earnings in 1980 and, at this mid-point in 1981, they appear well-poised to improve upon this performance during the current year. Whether this improvement in profits—in many cases, marginal—is a reflection of any improvement in the efficiency of their working or whether they are largely due to fortuitous circumstances, it is difficult to say.

To some extent, this can be due to the revision of the structure of interest rates brought about on July 1, 1980 with the minimum lending rates fixed at 13.5 per cent and the maximum at 19.4 per cent. Although the pattern of the deployment of bank funds was not conducive to profit-maximisation, the banks were able to operate on a comfortable "spread", so far as trade and industry outside the the priority categories are concerned. Since the banks could also pass on the burden of the 7 per cent interest tax to the borrowers, they were able to earn a little more on this score. Even granting that the banking industry has done well, profit-wise, the fact remains that its after-tax profit has never gone beyond half a per cent of its total working funds. As a proportion of their total earnings, the pre-tax profit oscillated between 9 and 12 per cent during the past 12 years. This has to be viewed in the light of the goals of nationalisation which do no not quite square with the profitability criterion.

Be that as it may, even the very fact that the banks were able keep out of the red in 1980 is of some significance. Firstly, there was a deceleration in the rate of growth of deposits in 1980 from about 19 per cent to about 15 per cent. The relatively high rate of growth in term deposits side by side with a negative growth of demand deposits increased the cost, to the banks, of holding funds. This has served to establish the fact that deposits, even in a developing country, can be interest-elastic. Last year's changes in the pattern of deposit-accretion showed that where interest rates rule high, the public shows a decided preference for avenues which yield higher returns. Secondly, deposit-accretion last year was also affected by the sluggishness of both industry and agriculture. And thirdly, the competition offered by the non-banking sector—public companies to be precise—must have diverted

CONTENTS

Are Credit Targets Sacrosanct ? — *The Editor* 7

Role of Reserve Bank in Controlling Monetary Explosion — *By B. Kumar* 11

Developing Countries' Access to International Capital Markets — *By B. Bhatia* 15

Banking Industry in India : A Changing Scenario for the Eighties — *By A. K. Rajula Devi* 21

Role of Commercial Banks in Eradicating Poverty : An Assessment — *By R. Raghupathy* 27

A Frame Work for Restructuring Commercial Banks : Some Suggestions — *J. P. Mathur* 29

Locational Aspects in Rural Banking — *By Prakash Adnur* 35

Commercial Banks and Small Sector Financing : New Horizons Explored — *By G. Somasundaram and C. M. Muniramappa* 39

Role of Institutions in Financing Retailers and Transport Operators — *R B I Study* 41

Bank Results — 1980 43

a sizable chunk of deposits from the banks.

In an assessment of the performance of the banks last year, one should also take into consideration the fact that a big slice—about 30 per cent and 35 per cent respectively—of the banks' resources is deployed (a) in the securities yielding a fixed interest to meet the statutory obligations and (b) in the priority sector where the interest rates are pegged. With bulk of their funds thus pre-empted, the banks were not in a position to divert much of their resources to those categories of borrowers who can be made to pay the maximum permitted rates. If, inspite of these constraints, the banks were able to earn more, it was because they could step up credit to traditional borrowers, taking advantage of the sharp decline in the credit for food procurement.

May 26 Measures

The following measures were announced by the Reserve Bank of India on May 26, 1981 indicating the credit policy to be followed by the banks during the current slack season as also in the entire financial year 1981-82 :

(a) The Cash Reserve Ratio will be raised from 6 per cent to 7 per cent in the two stages—6.5 per cent by the last Friday of July 1981 and 7 per cent by September 11, 1981.

(b) The discretionary refinance rate and the bills rediscounting rate were raised from 11 per cent to 14 per cent with effect from June 1, 1981.

(c) The interest charged by RBI on refinance in respect of export credit were reduced from 10 per cent to 9 per cent with effect from June 1 1981. This is with a view to facilitating exports.

(d) The interest paid by the Reserve Bank on the banks' balances maintained with it were raised from 6.5 per cent to 7 per cent with effect from June 1, 1981.

This is partly a reflection of the prevailing double digit inflation which inflates the credit needs of firms which, Alice-in-the-Wonderland fashion, have to borrow more even to maintain inventories—primarily of raw materials—at the same level. The traditional borrowers have complained, not without some justification, that their share in total credit has gone down, over the decade, although in absolute terms, they may be getting more. If the credit restraint, which has been in force since early last year has not hurt the traditional sectors—particularly industry in the private sector—too much, it is because of the sluggishness in industrial production which reduced the pressure on the banking system. The sizable decline in food credit, despite an estimated bumper food harvest of 133 million tonnes, in contrast to a rise on this account in 1979, has also enabled the banks to meet the credit needs of their traditional clientele to a greater extent without going to the "lender of last resort", namely, the Reserve Bank. Actually, their borrowings from RBI declined by Rs. 280 crores, in contract to a rise of Rs. 442 crores in 1979.

To the extent that interest rates serve to ration credit—higher the rate of interest, lower is the demand for funds—the prevailing high rates charged to non-priority borrowers may have encouraged business firms to raise working capital through their own sources. including deposits solicited from the public. Public deposits cost the companies three to four per cent less than bank borrowing. As such, companies which have a good public image were able to raise adequate funds through this device. Considering that the black money sector is at least half as big as the organised banking sector, it is possible that this sector has met the credit needs of the trade—speculative trade in particular—to a large extent.

It is common knowledge that black money is also financing certain activities like real estate dealings, construction and film production. The continuing double digit inflation is a reflection, on the demand side, of the havoc played by unaccounted money and the neutralisation of the salutury effect of the credit policy on banking operations. The tendency among our credit planners to wish away the existence of the black money sector while determining the parameters of policy remains a major cause of some of the distortions that we witness on the banking scene.

In the present context of inflation—and the need to curb the growth of money supply—certain aspects of policy are worth examining. Firstly, on the basis of the Chore Committee's report on the system of cash-credit, the Reserve Bank, advised the banks to:

1. Review at least once a year all the borrowal accounts enjoying aggregate working capital limits of Rs. 10 lakhs and over.

2. Obtain quarterly statements under the information system indicating the operative limits during the ensuing quarter from all borrowers having working capital limits of Rs. 50 lakhs and over from the banking system.

3. Fix separate limits wherever feasible for normal non-peak levels as also for the peak level credit requirements.

4. Discourage borrowers from approaching them frequently for *ad hoc* or temporary limits in excess of sanctioned limits.

5. Reduce the over-dependence by medium/large borrowers on bank credit by requiring them to enhance their contribution towards working capital,

6. Review the advance accounts against book debts and to convert

such cash credit limits into bills-limits wherever possible, and

7. Extend at least 50 per cent of cash credit limits against raw materials to manufacturing units having aggregate working capital limits of Rs. 50 lakhs and above by way of drawee bills only.

Considering that the time-honoured cash-credit system has led to several abuses, over the decades, the directives issues in this regard by the Reserve Bank should result in a more efficient deployment of credit by the banks and its more purposeful use by the borrowers. But any rigid application of these directives by the banks may cause avoidable difficulties to the borrowers. There can be no dispute over the directives that the banks should review the bigger borrowal accounts once a year or that the very big borrowers should be asked to submit quarterly statements indicating how much they need in the next quarter. But the credit needs of any business firm depend on several imponderables like the changes in the prices of raw materials, work-stoppages caused by labour disputes, a firm's cash-flow position and so on. Again, while the seasonal character of the credit needs of certain Industries is well known, even the most seasoned banker will not be able to assess accurately the peak level and non-peak level needs of the borrowers. The credit-discipline implied in the reformed cash-credit system is to be commended but the monetary authority will do well to allow enough leeway to the men on the spot, viz., branch managers, to exercise discretion in handling the problems of individual clients.

The same can be said of the recommendations of the working group (Dr. Krishnaswamy Committee) which went into the question of how best to attune the resources of the banks to the needs of the priority sector. Comment on these recommendations seems pertinent since the Government has accepted them, making their implementation by banks obligatory. While the concept of the priority sector is basically sound, it is difficult to determine who should get how much — and on what terms. It is relatively easy for the policy-maker — Finance Ministry in his instance — to determine credit priorities but adherence to these priorities, though socially desirable, bristles wlth practical difficulties at the micro level.

It is noteworthy that our banking system has surmounted these difficulties and even surpassed the macro target of 33⅓ per cent of aggregate bank credit to be channeled to the priority sector. There can be no doubt that the banks will be able to reach the revised target of 40 per cent by March 1985. But it remains to be seen whether they will be able to reach this percentage figure without diluting sound banking norms observed in lending operations. After all, the monetary authority will agree that these percentage stipulations have something to do with the growing ratio of overdues in some sectors. But nationlisation has certain goals and in the policy maker's view, these goals have to be pursued at all costs.

So far as the Krishnaswamy study group's recommendations are concerned, the banks will have a difficult time ln implementing them. Within the priority sector, it has defined a "weaker section," based on the smallness of the credit limit. While the banks may not find it too difficult to reach, for example, the target of 16 per cent (of total bank credit) to agriculture by 1985, directing 50 per cent of it to the weaker sections within this sector will not be easy when one considers the problems facing small and marginal farmers. Making agricultural credit viable is going to be the biggest problem for the Indian bankers in the eighties, more so since the present overdue position is far from satisfactory. Though there has been some improvement in the recovery position in the recent years, overdues remain well above 45 per cent.

Agricultural credit has been largely politicised, both by the ruling party and the parties in the opposition, as is evident from the alacrity with which some states have written off the overdues and the agitations launched by the opposition to secure similar concession elsewhere. Things have come to such a pass that the Reserve Bank Governor had to "soften" his opposition to the write-off demands and agree, in principle, to write-offs under certain conditions, so long as there is somebody outside the banking sector who can foot the bill. The refinements in the priority sector credit norms attempted by the Krishnaswamy committee, though theoretically sound, can thus be questioned on practical grounds. With overdues staring them in the face, how can the bank hope to raise agricultural advances to 16 per cent and advances to weaker sections in agriculture to 50 per cent of this sector's share ?

Another aspect of the same question was touched upon by Mr. P. C. D. Nambiar, in his speech at the annual meeting of Indian Banks Association last month. Referring to the massive injection of farm credit envisaged under the Integrated Rural Development Programme during the Sixth Plan (1980-85), Mr. Nambiar expressed "apprehension that serious difficulties may arise in the target-oriented efforts being made under IRDP, for, under the pressure of fulfilling the targets, institutional credit agencies may extend loans beyond the levels which the block economies can systain." He observed that "The credit needs of

3,000 families per block in these 5,000 blocks during the plan period may, on a conservative estimate, well exceed Rs. 7,500 crores."

He made no secret of his apprehension that lending on such a large scale to agriculture, mostly on concessional terms, may also affect the profitability of the banking industry. The banks may encounter similar problems, in the process of stepping up credit to the weaker segment of small industries sector when one considers the proneness of this sector to sickness. The banks are already saddled with the problem of "curing" the sickness of nearly 21,000 units in the small scale sector, locking up nearly Rs. 250 crores. But that is peanuts compared to the sticky and irrecoverable loans made to farmers of varying description. Our own view on priority sector lending, which does not quite coincide with that of the Krishnaswamy Committee, is that while subsidised lending (lending at concessional rates of interest) is in order, provided it does not unduly erode the profitability of the banks, ear-marking credit to the priority sub-sectors on the basis of percentages would be impractical and unwise.

Furthermore, we feel that, while it is desirable to ensure a fair "spread" of bank credit among different regions keeping in view the absorptive capacity of the borrowers in each region, it would not be sensible to insist on any kind of uniformity in respect of the credit-deposit ratio as between regions and as between the rural sector and the urban sector. In our view, there is nothing wrong in using the deposits generated in one region for the development of another region so long as the banks take care of viable propositions everywhere.

The target-mindedness of the policy makers in regard to the allocation of credit on need-based criteria has brought to surface certain disquieting trends. We can cite just two instances to highlight this fact. One instance relates to the sanctioning of DIR loans. It is well known that many banks have failed to reach even the modest target of one per cent (of total credit) in the distribution of loans at the concessional rate of 4 per cent under DIR scheme. Understandably, the branch managers are under pressure to step up their credit to this category of borrowers—poorest of the poor, to be precise. The response of one of the managers in a nationalised bank in Amravati, Maharashtra, to this pressure was to invent *benami* borrowers and divert lakhs of rupees to his colleagues under the DIR scheme. We make no apology to quote the relevant paragraphs from the news report dated June 16 which appeared in most daily newspapers:

> The beneficiaries, many of whom had been introduced by the same person and had given the same address, included a number of employees who had got the loans in their relatives' names and put the amounts in long-term Fixed Deposits earning more than double the interest they were paying, the sources said. The DIR Scheme, meant for applicants with an annual income of less than Rs. 2,400 for which income certificates have to be produced, provides for the grant of loans at a concessional interest rate of four per cent per year with a seven-year repayment schedule.
>
> The rules specify that a branch may give up to one per cent of its total deposits as loans under the Scheme but the local branch, which has deposits of less than Rs. two crores, has disbursed about Rs. 36 lakhs to about 600 applicants between October last year and April—18 times its limit, the sources said.

The manager in question would not probably have dared to commit such a huge fraud if he did not have the backing of an ubiquitous M. L. A. or M. P. with influence among the higher-ups. The second instance related to the branch manager, again, of a nationalised bank, who reportedly refused to be brow-beaten into sanctioning concessional loans. The bank in question is located in a small town in Gujarat. The Officers' Association of that bank, which took up the case of the helpless manager who was suspended for doing his duty characterised the management's action as "politically motivated." We may also quote a paragraph from the news report dated June 6:

> Answering a question, Mr. Rindani (Secretary of the Officers' Organisation) stated that the real reason appears to be that Mr. Shah (Manager of the branch in question), on assumption of his office and in pursuance of the head office directive, served nearly 200 notices for recovering the "sticky advances" from the villagers. A village *sarpanch* was also served with notice. Of the Rs. 9 lakhs advanced by the branch since 1977, more than Rs. 6 lakhs were sticky advances, it was stated.

We juxtapose these two instances to illustrate how even well-meaning measures can be sabotaged if the general standard of public probity is not up to the mark and the staff are not properly motivated to carry out the tasks assigned to them. The cynicism and greed of the manager cited in the first instance is in contrast to the rule-mindedness of the manager in the second instance. The first one will get the punishment for committing a fraud; the second one got the kick for preventing scores of others from possibly committing a fraud on the bank. A close look at the frauds (involving lakhs and crores of rupees) committed on the banks by the staff and the borrowers—often in collusion with each other—reveals a politician-banker nexus which needs to be broken if the credibility of the banking system is to be restored for the good of the economy. Priority lending has almost become a euphemism for the political busy bodies—mostly the better-off sections—lapping up the cream of subsidised credit in the name of the 20-point programme and so forth.

Role of Reserve Bank in Controlling Monetary Explosion

By B. KUMAR *

THE Reserve Bank of India is the country's Central Bank. Its present status is the result of the evolution of central banking technique and practice in the country in the backcground of a developing, expanding, planned and socialist oriented economy characterised by the presence of a vast spectre of disorganised rural money market and several inhibiting factors which restrains the arena of central banking control and operation in the country. As the Monetary Authority the functions of the RBI consists of (i) creation of money and (ii) regulation of money stock and their behaviour.

The RBI is empowered to create money in the country by issue of bank notes, except one-rupee notes and coins which are issued by the Central Government. The regulatory function of the RBI includes such powers and operations which are directed to regulate, control and direct the volume, cost, use, and development of bank credit. It comprises of general as well as credit control instruments.

The main emphasis of the RBI's credit control function during last three decades had been on regulation of bank credit, particularly the short term seasonal flow of bank funds to the commercial sector of the economy. The other aspect or component of its functions, namely the expansion of money (currency) has received scanty attention so far. In fact out of the three components of money stock, namely (i) currency (ii) Bank credit, and (iii) the velocity of circulation of money stock, the RBI has mainly concentrated on the bank credit. The currency and velocity have been ignored or kept in abeyance in the credit control exercises. But the basic fact is that Bank credit is created on the basis of currency. The powers of the banks to create credit is determined by the volume of cash deposits which the banks have. Hence currency policy of the RBI has a profound effect on the flow of credit in the economy.

The purpose of this article is to study the currency and credit creation aspects of the RBI's function which constitute a significant factor in the monetary explosion in the country during last three decades. The theme of the study can be broadly studied under three heads namely (i) expansion of currency (ii) RBI's assistance to banks, and (iii) high powered money. Monetary explosion constitute the single most important factor which has contributed to the spiralling eruption of inflationary rise in the prices. So far the bank credit has remained in the limelight in any analysis of the effects of monetery explosion on the pricing behaviour. The article intends to spotlight the primary source of monetary expansion which is taking place in the country since the advent of the planning.

I

An analysis of the money stock in the country reveals the rate of currency expansion and its ratio to the overall money stock since 1961-62, for selected years for which the comparable data are available. The data in Table-1 reveals the position of cnrrency in money stock.

The RBI issues notes on the basis of fixed fiduciary system since 1956. Prior to that the proportional Reserve system of Note Issue was in vogue. Table-1 reflects that the percentage of currency to the overall money stock declined since 1960-61 but it still accounts for 50 per cent of the total money supply. Till late seventies, the percentage was nearly 60 per cent of the total money stock.

A further study of the balance sheets of the RBI (Issue Department) on June 30, 1980 as compared to the position on June 30, 1950 and 1974 reveals interesting picture.

The study of the balance sheets of RBI reveals that against the currency expansion of Rs. 10,820 crores in 1980 the RBI had gold reserve of Rs. 225 crores only. The currency expansion thus, is backed by only 0.54 per cent of the gold reserve. The total volume of rupee coins amounting to Rs. 37 crores account for a negligible share of the currency composition. The rationale or the guiding principles for determination of the quantum of notes to be issued by RBI is not indicated by the RBI in its annual reports or other publications. But a comparision with the budgetary deficits, plan outlays or Reserve money also reveals lack of any consistent pattern. No rational explanation of the currency expansion leading to the overall monetary explosion during the various plan periods is readily available. The composition of Reserve money throws some light on the rate of currency expansion as indicated in the last part of this study.

TABLE-1

(currency increase)

Year	Currency Rs. crores	change % over prev. year	ratio to M 1
1961-62	2205	7.9	72.4
1965-66	3056	8.3	66.2
1968-69	3789	9.9	62.7
1970-71	4591	10.1	61.5
1971-72	4978	8.5	58.4
1972-73	5829	17.1	56.5
1973-74	6336	14.4	58.5
1974-75	6378	6.9	58.5
1975-76	6704	11.3	55.4
1975-77	8298	11.2	50.7
1977-78	9224	19.5	47.4
1978-79	10212	22.0	47.6
1979-80	11686	14.2	49.7

Sources : RBI's publications

---

* Mr. B· Kumar teaches in R. S. P. College, Jharia, Bihar.

** This article was prepared under the guidance of Dr. V. L. Srivastava, Professor, Head, and Dean Faculty of Commerce, Ranchi University, Ranchi as a part of a research programme.

RBI had no direct control over the Bank credits before the nationalisation of banks in 1969. But the volume of currency could have been fairly well regulated keeping in view the secondary expansion of bank credit, behaviour of high power money and velocity of money income. The analysis of the process of transmission of the effects of money stock on aggregate consumption expenditure reveals the sizeable effect of money stock on house hold sector whose main source of income is hard cash either by way of wages, salaries or remunneration of self employed sector.

TABLE-2

BALANCE SHEETS OF RESERVE BANK

(Rs. Crores)

	Position on 30th June		
	1950	1974	1980
Liabilities			
Notes held in Banking Department	36.61	37.18	24.0
Notes in circulation	1168.0	6472.72	11,820
Total notes issued	1206.0	6509.9	11,844
Assets			
Gold, bullion, coins	40.02	182.53	225.0
Foreign securities	638.15	166.74	2664.0
Rupee coins	55.3	7.51	37.0
Government of India Rupee securities	471.67	6153.12	8891.0
Total	1206.0	6509.90	11844.0

Source : RRI publications

Out of Rs. 5,604 crores domestic saving in 1973-74 of the household sector Rs. 3561 crores was in the form of currency and bank deposits. The effect of currency on aggregate expenditure of the vast multitude who are not accustomed to banking habits is more pronounced than the effect of bank credit which mainly affects the corporate and non-corporate business sector. Analysis of Reserve money reveals high share of RBI's net claim on Government in the composition of reserve money. The currency expansion policy of the RBI needs a well defined norm and rationale. The volume of bank credit can be more effectively regulated and tuned by the currency control measures than the play of other subtle monetary instruments. Virtually entire currency expansion has been backed by the Government of India Rupee securities. The phenomenal growth of money stock during last decade (table III) underlines the explosion in money supply.

II

The credit control instruments of RBI works mainly through flow of credit from RBI to the banking sector. Bank rate and changes in Reserve Ratio affects the credit generation power of the banking sector in the desired direction. Table IV reveals the

We take care of the hands that feed us..

Agriculturist is backbone of our Nation - - and we finance agriculture.
Your savings are a valuable help to us in this task.
Save with
Bank of Maharashtra.

BANK OF MAHARASHTRA
बँक ऑफ महाराष्ट्र
SAVING

Bank of Maharashtra
(A Government of India Undertaking)
H.O. Lokmangal,
PUNE : 411005.

R.A ADVTG.

TABLE-3

MONETARY EXPLOSION IN INDIA

Rs. Crores

	1970-71	1979-80
Currency with public	4367	11,686
Demand deposit with banks	2954	12,703
Total of M 1	7321	24,388
M 2	8311	26,395
M 3	10958	46,824
M 4	12142	52451

Source : RBI Bulletin, September, 1980

acceleration effect of the RBI's assistance to the banking sector on the overall bank credit. The table clearly reflects on the volume and percentage of RBI's assistance to the total bank credit.

The data of Table-IV should be interpreted with one reservation. The ratio of RBI's assistance with the bank credit for the same year has little relevance. The flow of RBI credit to banks takes some time before the banks can inject more credit to the market. The time lag is short but it renders the data of same period incomparable. Hence the rates of RBI's assistance to the banks and the bank credit could be compared on the basis of a time gap of six months. Table-IV clearly reveals that sizeable part of the banks credit is financed by the RBI although the percentage appears to have declined since 1972-73. However, it still accounts for more than 50 per cent, except for a few exceptional years. The index of *per capita* money supply in 1973-74 was 359 with 1952-53 as the base year. This also reflects the rising tempo of credit mainly financed by the RBI's credit to the banking sector.

III

Another less emphasised aspect of the India's monetary sector has been the behaviour of high powered money, i. e. the reserve money. Table-V reveals the pattern and composition of high power money. The Reserve money which is also termed as High powered money "conceptually provides base for further expansion of money supply." The Reserve money consists of following:

i) currency with the public
ii) other deposits with RBI
iii) Cash with banks, and
iv) Banks' deposits with RBI

Table-V gives the volume of Reserve money and its composition for selected years. The Second Working group on Money Supply, Concept etc. of the RBI which submitted its Report in 1977 has analysed the variation in Reserve money and its components for the period 1970-76 on a monthly basis. It has also indicated the sources of changes in reserve money.

The data clearly shows two important aspects of the high powered money. The first fact is that the currency constitutes the main component of Reserve money. In March, 1970 the currency accounted for 77 per cent of the total Reserve money while in 1974 it accounted for 88 per cent of the Reserve money. In 1979-80 it contributed about 69 per cent of the total Reserve money.

The second notable fact is that the RBI's net claim on the Government accounts for a major share of the Reserve money. The RBI's claims on Government during 1970-74 had increased from 78.6 per cent to 86 per cent. But it declined to 70 per cent in 1979-80. This indicates that the currency expansion takes place in accordance with the liquidity needs of the Government. The deficit finance plays an important role in shaping

TABLE-4

RBI'S ASSISTANCE TO BANKS

Rs. Crores

Year	Total RBI's assistance	Total banks credit	%of RBI's assistance to bank credit
1960-61	1075.57	1085.59	99.0
1965-66	1258.99	2006.60	60.1
1969-70	2776.92	3560.70	82.5
1970-71	4795.02	4220.15	111.3
1971-72	4136.88	4765.89	86.0
1972-73	2075.78	5604.26	37.0
1973-74	4079.41	6822.17	59.3
1974-75	5895.92	8762.00	63.0
1975-76	9489	11819.00	82.2
1976-77	11998	14198.00	87.7
1977-78	15608	15795.00	98.6
1978-79	5465	19088.00	24.6
1979-80	11017	22053.00	50.5

Source: RBI Bulletins (various issues)

TABLE–5

RESERVE MONEY

Rs. Crores

Year	Reserve money	currency with public	RBI's deposits	other banks dep.
1970	4391	3295	58	115
1971	4814	4367	44	186
1972	4380	4800	79	205
1973	6015	5420	51	247
1974	4260	6308	45	277
1978-79	13716	10212	202	615
1979-80	16465	11686	411	685
	banks deposit	**of which RBI's net claim on Govt.**	**Comm. banks**	**Comm. sector**
1970	173	3496	514	77
1974	630	6234	725	562
1978-79	2686	8568	1103	1248
1979-80	3685	11534	1227	1547

Source: RBI Bulletins (issues since 1977 Jan.

the liqudity requirements of the Government. Hence the currency Policy of the RBI is virtually dictated by the budgetary needs of the India Government.

The analysis of the above facts leads us to the conclusion that regulation of the volume of currency and RBI's assistance to the banks and also RBI's net claims on Government can serve as a better lever for control of credit than the regulation of bank credit through traditional weapons of quantitative credit controls. The approach should be to regulate the base line of inflationary generation rather than chasing the secondary expansion of credit.

The genesis and also the edifice of the monetary explosion can be traced back to the concept of monetary expansion in anticipation of real growth as embodied in the First Five Year Plan document and subsequently nurshed and nurtured in the successive plan periods. The study underlines the necessity of reversal in the present monetary philosophy and designing of an alternative which can work more effectively in the planned and developing environment.

REGIONAL RURAL BANKS HELP WEAKER SECTIONS

Despite the constraint of limited area of operation, an unhelpful topography and an unenterprising clientele, the Regional Rural Banks (RRBs) have so far been able to achieve the main objective of helping the weaker sections of the community in the rural areas. This conclusion emerges from a study on the viability of RRBs undertaken by the Rural Planning and Credit Cell and published in the March 1981 issue of the Reserve Bank of India Bulletin. The study covers the working of fifteen RRBs which had been in existence for three years, or which had attained a loan business of Rs. 3 crores and above, by the end of December 1978.

On an average, a RRB had (by the end of 1978) advanced directly a total loan of Rs. 3.35 crores to about 42,000 borrowers at the rate of about Rs. 800 per account, indicating thereby the preponderance of small borrowers. Out of the total borrowers, small/marginal farmers and landless agricultural labourers accounted for 70 per cent and rural artisans, retail traders and other unemployed persons for 25 per cent.

The fifteen RRBs selected for the study had controlled their operating expenses quite efficiently. There was no doubt a rise in expenditure between 1976 and 1978, but this was due to increase in interest paid on deposits (from 6.7 per cent to 32.2 per cent) and interest on borrowings (from 20.0 per cent to 22.6 per cent) and not due to increase in establishment expenses. Actually, establishment expenses had declined from 73.3 per cent in 1976 to 45.2 per cent in 1978. The overall rate of growth in income was quite impressive. The gross income per RRB increased from barely Rs. 3 lakhs in 1976 to Rs. 40 lakhs in 1978. The gap between income and expenditure of RRBs is quite small signifying that the RRBs are nearing the break-even point.

Gift a Gift that Appreciates —

IOB Cash Certificates

You can buy one for as little as
Rs. 37.20 which will grow to Rs. 100/-
in ten years

Drop in at any one of our branches. Five
minutes is all it takes to buy an IOB
Cash Certificate

Indian Overseas Bank
Good people to grow with

Developing Countries' Access to International Capital Markets

By B. BHATIA *

SUCCESS always incites competition. Two decades ago, the development of international capital market remained hampered by a scarcity of attractive borrowers, inadequate back up expertise and to some extent political uncertainties. The size of the market looked too small, the business too thinly spread and the potential for the market was always problematical. The capital movements were of much smaller size and the Eurodollar was unknown entity. Today, it is quite different from what it looked two decades ago. The funds in the market are raised not only by the rich and industrially developed countries and international organisations but also by the countries in Latian America and Eastern Europe. It is not uncommon today to read in international financial journals that Arab Central Banks depositing dollars with a Bank in Switzerland which passes them to a Japanese Bank in London to lend oil Company in Mexico or other developing country.

Historically, the problem of financing the developing countries was viewed primarily as one of the aid, or official loans besides domestic financial flows for capital formation. Little attention was given to the need for raising resources from the international market and as far as in 1969 the Pearson Commission stated that the developing countries had limited access to the capital markets of the world and its present successor, the Brandt Commission has emphasised the need for transferring more resources for developing countries not just to cover their immediate financing requirements but also to build up their economies in the longrun. The growth of the international capital markets accelerated mainly due to the operations of the World Bank which has been an instrument of long term capital movements between developed and developing countries. Further, the convertibility among the major currencies till August, 1971 have encouraged the flow of capital across the national boundaries.

The growing use of dollar for financing international transactions against the background of currency convertibility and the emerging deficits in the US balance of payments led to a sharp increase in the volume of short term flows of dollars outside the USA. This, together with the imposition of the Interest Equalisation Tax by the Kennedy Administration in 1963, brought the borrowers and the lenders to London for seeking funds from the International Capital Market. Besides, the various controls in the USA have squeezed dollars to the Euromarkets and with the accumulation of OPEC surplus funds the liquidity in the Euromarket has increased considerably which helped the borrowers to obtain the loans for longer maturities on easy terms without much difficulty. However, in the past, the developing countries have had more difficulty obtaining funds in the international capital market *vis a vis* the developed nations and to what extent the developing countries can tap this source of finance in the near future to sustain their growth is the subject matter of the present paper.

Broadly, the developing countries need funds from the international capital markets mainly for four reasons viz , (i) to finance trade (ii) to finance projects, (iii) to offset balance of payments deficits and accumulate international reserves and (iv) to refinance international loans. Since the demand for funds on the market is from many countries the effort is always made to obtain the maximum credit at the lowest possible cost for longest duration. How much and to what extent developing countries would succeed in obtaining funds from the market depends upon the number of factors. The main factors which are generally taken into consideration by the lenders are the economic and financial status of borrowing nations, purpose of borrowing, the amounts to be borrowed, the life time of the loans, interest rates and other costs. Basically, the following four alternatives are available to a borrowing countryl (i) to approach international financial organisations like World Bank, IMF, IDA and like institutions (ii) Foreign Government lending agencies such as Exim Bank of USA, (iii) international commercial and merchant Banks (iv) Co-financing between official and private financial institutions.

The type of the lender is generally selected depending upon the kind of facility required by the developing country. If the funds are required to finance an infrastructure facility the appropriate source would be to approach World Bank which is generally willing to lend with low rate of interest and longer repayment schedule. If the project for which funds are needed is an industrial project, either export approprirte import saving, the appropriate agency would be International Finance Corporation (IFC) which will provide long and short term financing. Foreign Government lending agency would also be of great help if the project involves purchases of products from manufacturers in those countrie. Lastly, many developing countries for several reasons may prefer borrowing from inrernational commercial banks and the decision of the lender(s) would depend upon the rating and the credit-worthiness of the borrowing country.

For assessing the credit-worthiness of country, which of course varies from country to country, there are certain common factors which are considered by the lenders and they are briefly as follows. The first factor taken into consideration is gross national product (GNP) *per capita* and GNP growth *per capita.* This ratio indicate the growth and development and indirectly reflect the extent of industrial diversification achieved as well as capacity to support external debt *via* higher income levels and growth in incomes. Second factor is export growth which plays a vital role in maintaining and/or improving the credit-worthiness of a borrowing country. Third, the ratio of debt service to GNP and to exports reflect the burden on the borrowing country from external indebtedness. In this respect, the debt service refers to the sum of interest and repayments of principal on external public and public guarantees debt.

---

* Dr. Bhatia is Manager, Industrial Finance Carporation of India, Patna-800001.

The views expressed are the personal views of the author and not of the institution where he is working.

The ratio of debt service to exports of goods and services is a commonly used as rule of thumb for assessing debt service capacity. The ratio of debt service to GNP measures the share of income absorbed by the international transactions of purchasing power. This transfer is needed to service interest and repayments of principal. Lastly, the international reserves (number of months' import cover) reflects the ability of a country to cover import requirements without interruption by drawing on cash holdings generally held in the form of foreign exchange (mainly dollar) gold reserves and other reserves which reflect the international liquidity position of a country from the standpoint of its ability to meet immediate payment obligations in the short run. These are some of the factors which are taken into consideration for borrowing from the international market though their degree varies depending upon the sources through which the funds are raised. In 1979, nearly 21 developing countries borrowed funds from the international capital market and their significant data for assessing borrowing credit-worthiness in respect of 19 countries are given in the following Table.

As regards the borrowing from the international market, London and New York were and are today the only two large markets for international borrowing to which Switzerland may perhaps be added. However, the upward revaluation of German Deutsche Mark in November, 1969 encouraged German authorities to export capital which coincided with the desire of many investors to invest in "hard" currencies. Today Frankfurt, Tokyo, Singapore and Hong Kong are other centres which also have acquired predominance in the international borrowings. However, the borrowings from international capital markets are not free from regulations and these regulations do not discriminate among the borrowers. They are intended to protect national investors and currencies.

But their effect is to favour established borrowers and to make markets inaccessible to inexperienced borrowers. A distinction may be drawn here in respect of borrowings in international credit market and the bond markets. In the bond market, the borrowing may be either in Eurobond market or in foreign bond market. The restraints are placed on foreign

VIJAYA BANK. For the millions who have nothing to invest except hard work.

Look around you and you'll see them wherever the eye falls.

Artisans, cobblers, basket weavers, vegetable vendors, tea-shop owners—small operators too humble to be called "businessmen" but proud enough to want to stand on their own feet.

Vijaya Bank reaches out to them with credit, advice on how to use it best and help to get a livelihood going.

If you'd like to know more, come across to Vijaya Bank.

There's one close to you.

VIJAYA BANK

(Wholly owned by the Govt. of India)
H. O. 2, Residency Road, Bangalore-25.

borrowings in both the Eurobond market and foreign bond market but they are considerably greater in the latter category and are non-discriminatory. While the developing countries have been successfully able to tap the credit markets, their borrowings in the bond markets is relatively small.

The issuing activity in the Eurobond is relatively unregulated but Euro-issues denominated in other currencies like Deutsche Mark, Swiss Francs and Dutch Guilders are not encouraged freely. The authorities of Federal Republic of Germany do permit the use of the DM in international bonds, but require that such bonds be treated like any other DM issue and are regulated by the capital Markets Committee consisting of the principal issuing banks with close contact with Bundesbank which operates a queue system and determines the issue — foreign and domestic — to be authorised in each month.

In Japan the practice is for a foreign borrower to make a successful public offering in another foreign bond market before it can enter the Japanese market. Access of non-residents to the French bond market is forbidden. The Euro-dollar issues are the freest for all and like the domestic and foreign dollar issues in the US market, they do not require any authorisation and unless they are publicaly offered in the United States, the Securities and Exchange Commission (SEC) is also avoided. The compliance of SEC requirements is generally regarded as difficult particularly for the corporate borrowers and tends to be costly.

Some Governments, with their large borrowing programmes, seek to prevent competing foreign issues alltogether and have strict regulation of competing domestic private issues. Others maintain a regulatory system. On the overall basis, it may be stated that the industrialised countries have taken only limited action to provide preferential access to bond issues by the developing countries mainly because in their opinion their capital markets are already sufficiently liberal and their balance of payments situation precludes them from granting preferential access. The total bonds issued by the developing countries rose from less than U S. $ 0.5 billion in 1970 to U.S. $ 6.0 billion in 1978 of which $ 5.9 billion was in respect of the debt of the middle income countries. The bonds issued by the developing countries in the Eurobond market still forms a small portion in relation to their total capital needs.

According to the data published by the World Bank, the total amount required by all the developing countries in 1985 would be $ 283 billion which will increase to $ 469 billion in 1990. Of the total nearly 70 per cent will have to come from medium and long-term loans at market terms and only 30 per cent would be provided by other Public and Private sources such as official grants, official concessional loans and private direct investment from the developed countries. The present trend of borrowing by the developing countries is nowhere near the amount. The total borrowing in the international capital markets (both bond markets and Euro-loan market) in 1979 were at $ 106,123 million which were slightly lower than in 1978 at $ 111,040 million. The provisional figures for the first two quarters of 1980 indicate, the total borrowing at $ 44,402 million. Of the total borrowing at $ 106,123 million in 1979 the share of developing countries were at 46,371 million or 43.7 per cent as against $ 44,368 million or 40.0 per cent in 1978. The corresponding borrowing for the first half of 1980 is at $ 15,914 million or 35.8 per cent of the total borrowing.

There has been a decline of 34 per cent in borrowing by developing countries in 1979 as against the 1975-76 when annual borrowing increase ranged from 28 per cent to 104 per cent. The drop in borrowing in 1979 sharply differs from the Eurocurrency syndicate loan market where the developed countries' borrowers obtained 62 per cent of all loans. The reduced borrowing by the developing countries in 1979 was evident both in number of countries tapping the markets and in the amounts raised by the most active borrowers. Only 21 developing countries raised funds in 1979 compared with 27 in 1978. During both 1978 and 1979, roughly half of all developing countries borrowing was completed by four countries. The largest amounts raised in 1979 were by Brazil ($ 576 million), Spain ($ 481 million) Israel ($ 437 million) and Argentina ($ 417 million). A new developing country, Haiti, tapped the bond market for the first time in 1979. The issue was guaranteed by the French parent company which included a special feature indexing the interest rate on the bonds to the Company's business activity at its other Caribbean resorts. Sri Lanka raised Eurocurrency loan for the first time of $ 50 million in 1979.

The year 1979 also witnessed the declining spreads and lengthening maturities. Spreads between the borrowers were no longer an indication of their credit rating and most of the countries could negotiate loans at spreads of one per cent or below and at maturities with ten years or less. Because of low spreads, a great strain was put on the participating banks and many of the traditional participating banks disappeared from the scene leaving the largest commercial banks to provide the funds. As the year 1979 drew to close, the capital market attempted to adjust to rising interest rates and thus erratic conditions continued. The US Government announced the freezing of all Iranian assets in US banks and this strain on the banks was reflected in the higher LIBOR which reached 14.44 per cent in December, 1979 and to 19.56 per cent in March, 1980 but declined to 9.94 per cent in June, 1980.

Frequent ups and downs in LIBOR also discouraged the issuance of fixed–rate Euro dollar issues and instead borrowing activity shifted to the Floating Rate Note (FRN) sector of the international market. The total FRN issued in 1979 were $ 4,182 million as against $ 2603 million in 1978 and $ 1940 million in 1977. An encouraging feature of the international capital market in recent years is shown by the banks which have been receptive to FRNs issued by the developing countries. This receptivity has provided the developing country borrowers both an alternative to borrowing in the Syndicate loan market. The developing countries were able to raise $1,307 million through Eurodollar floating rate in 1979.

The borrowing by developing countries however declined during the first half of 1980 and only 12 issues of the aggregate amount of $ 590 million were completed by eleven countries including India. A $ 30 million floating note by the State Bank of Indian represented the first Indian borrowing in the bond market since 1973. In the international bond market, the US dollar-denominated bonds accounted for over two-thirds of the total borrowings and the developing countries continued to raise most of their dollar bonds (79 per cent) through the floating rate note sector of the market. Currencies used in the international market for the first time in several years included French Franc and the Special Drawing Right. With the reduction in SDR's currency basket from an unwieldy 16 currencies to five only (the dollar, yen, D-Mark, French Franc and Sterling) it is expected SDK denominated bond issues would grow in future.

Some recent trends in the international capital market may be briefly mentioned here. The dealers in the international bond market have been finding it difficult to sell bonds directly to clients. The membership of the Association of International Bond Dealers (AIBD), a self-regulating body, has increased to about 600 which is more than the number of new issue business available in any particular year. The number of banks underwriting any one issue has risen to the figure of 170 and most of the bonds are placed in the secondary market by the banks to prevent the issue from flopping. Instances are not uncommon when, in order to meet their commitments, the banks had to sell short and buy bonds at the full price and thereby incur big losses — a trend which needs to be checked. The collapse of the Bankhaus Herstatt in the Federal Republic of Germany and the Franklin National Bank in the US are reminders of the international banking failures during the seventies. One of the ways to avoid such failures is to limit the number of managers and co-managers in any particular issue. The temption of underwriting commission should not be a primary criteria for the bond issue. The second feature of the recent developments in the international market is that the US administration has been dropping vague hints that the Central Banks might try to regulate the Euromarkets as they do their domestic banks.

There is general arrangements among the Central Bankers in the US and European countries that the control of the Euromarkets is needed mainly for two reasons, viz., deposits rate in the Euromarkets are consistently higher than the domestic markets and secondly, when the borrowers had the option of getting dollars in America would often find them cheaper in the Euromarkets. To what extent the central bankers would succeed in controlling the Euro-markets will only be answered in the fullness of time but as it stands today it would not be prudent to control too much too quickly and the measures in the pipeline should be given a fair chance to work. By draining dollars from the Euromarkets the international market

The widest option to choose just the imported machinery you need

WITH A FOREIGN EXCHANGE LOAN FROM G S F C

Are you planning to modernise your plant, diversify or expand your product range? Do you wish to start a new industry? If you need imported equipment and machinery, come to GSFC for a foreign-exchange loan. Whatever be your total investment, if your share capital and free reserves are below Rs. 1 crore, we can arrange foreign-exchange loans upto Rs. 30 lakhs. Further, if your project is in one of the Backward Districts, the loans are available at concessional rate of interest. Thanks to the simplified procedures, you can obtain an import licence easily.

GSFC has so far aided several units with foreign-exchange loans. We also provide rupee loans for the purchase of indigenous plant and equipment.

For further information, Please contact :

GUJARAT STATE FINANCIAL CORPORATION
Jaldarshan Building, 1st Floor, Ashram Road, P. B. No. 4030,
AHMEDABAD-380 009.

LIBOR SPREADS, EXTERNAL DEBT AND COUNTRY RISK VARIABLES IN RESPECT OF 19 COUNTRIES

Borrower	%LIBOR Spread* in 1980		External Public debt 1978		Debt Service 1978		GNP per capita		Average annual rate of inflation (%) 1970-78	Average annual Growth exports 1970-78 (%)	Gross domestic saving as % of GDP 1978
	I quarter	II quarter	Millions$	%of GNP	as % GNP	as % exports	in $1978	Average annual (%) 1960-78			
Algeria	0.88	—	13168	52.6	5.9	20.9	1260	2.3	13.4	-0.8	37
Argentina	0.56	0.63	6801	11.4	3.5	26.8	1910	2.6	120.4	6.8	30
Brazil	0.79	0.98	28821	15.6	2.2	28.4	1570	4.9	30.3	6.0	21
Chile	0.95	1.12	4359	26.2	7.3	38.2	1410	1.0	242.6	6.5	7
Colomiba	0.73	—	2833	12,2	1.7	9.8	850	3.0	21.7	1.2	25
Greece	0.70	0.63	3123	9,7	1.7	8.5	3250	6.0	13.8	13.1	20
Indonesia	0.82	0.87	13089	27,6	3.1	13.0	360	4.1	20.0	7.2	22
Ivory Coast	1.50	—	2818	39.5	5.9	14.1	840	2.5	13,9	8.5	30
Korea, Republic	0.78	0,81	11992	26,1	3.9	10.5	1160	6.9	19.3	28.8	28
Malaysia	0.49	—	2671	17,6	4.6	8.8	1090	3.9	7.2	5.2	31
Mexico	1.38	0.66	25775	28.7	6.9	59.6	1290	2.7	17,5	5.2	25
Moracco	0.96	—	5139	40.1	4.3	18.7	670	2.5	7.1	2.6	11
Nigeria	1.00	—	2180	4.5	0.3	1.2	560	3.6	18.2	0.5	28
Phillipines	0.79	0.88	4188	18.0	2.8	13.4	510	2.6	13.4	5.4	24
Portugal	0.76	0.75	2642	14.0	1.1	3.7	1990	5.9	15.2	-5.9	12
Spain	0.80	0.78	7631	5.5	1.8	11.0	3470	5.0	15.0	11.0	21
Thailand	0.77	—	1777	8.2	0.9	3.7	490	4.6	9.1	12.2	22
Venezuela	0.68	0·69	6921	17.1	1.9	6.9	2910	2.7	11.1	-10.1	34
Yogoslavia	0.88	1.11	3454	6 4	0.7	3.2	2380	5.4	17.3	4.8	28

*Weighted by amount of loan

Source: World Bank, Annual Report and World Development Report, 1980.

may further suffer instability and more particularly if the proposals to establish New York an International Banking Zone takes final shape.

In 1980, West Germany, for the first time since 1965, ran its first current account deficit and inflation rose to 6 per cent and German reserves fell by $ 6.2 billion (excluding gold) in the first three months of 1980. Its current account surplus of DM 17.5 billion in 1978 turned sharply to a deficit of DM 10.1 billion in 1979 and DM 28·1 billion in 1980. The sharp hike in the import bill for petroleum together with drain of funds on account of transfer payments has been responsible for the rise in the current account deficit. In fact, over the last fifteen months, the DM has been under varying degrees of pressure and after initial appreciation against the dollar upto June, 1980 it has depreciated very steeply. Those volatile exchange rate movements for the DM are somewhat unusual. For over a decade, it was the strongest internationally traded currency and the favourite currency for holding foreign exchange resources. However, DM, though currently weak, is unlikely to remain so for long due to the inherent strength of the West German economy.

Germany's Deutsche Bank is one of the biggest lenders in the Eurodollar market followed by Canada and Japan, the latter had temporarily disappeared from the scene as ordered by their Ministry of Finance to cut down their Euromarket lending. But gradually they are being brought back in the market. Thus, over the years, the international capital market has demonstrated its liveliness and responded favourably to changing environment the credit for which goes to the institutions operating in it. Today, the developing countries are not only borrowing from the market but also have begun investors in the market. However, to make international lending more accessible for developing countries, there is urgent need for rethinking on the conventional debt service ratio for determining country credit-worthiness particularly for low income countries by a system of mutual consultation among the lenders and the borrowers under the overall supervision of the World Bank and International Monetary Fund.

MODULAR STRUCTURE FOR STATE BANK

The State Bank of India, which came under the public sector in 1955 with 466 offices, has now as many as 5,283 offices in the country. Of this, about 75 per cent have been opened in rural and semi-urban areas. With the twin objective of providing still better service and having effective control of the Branch offices, the Bank is progressively extending its scheme of reorganising the overall administrative set up. In the reorganised set up—known as Modular Structure—while the management control functions will remain with the local Head office, the operational control functions be shifted to the regional offices which will be located nearer their areas of operation. A regional office, with a Chief Regional Manager and a maximum of five Regional Managers, will control 150 to 175 offices. The Modular Structure has been introduced at Ahmedabad Circle from May 1, 1981.

PUT THIS
AUSPICIOUS MARK
ON ALL YOUR
EXPORT CONTRACTS

**EXPORT CREDIT & GUARANTEE
CORPORATION LIMITED**

(A GOVERNMENT OF INDIA ENTERPRISE)

Regd. Office:
Express Towers, 10th floor,
Nariman Point, Bombay 400 021
Telex: 011-3231
Telephones: 233023, 233046,
233196, 233267, 233321,
Gram: INDERIC

Regional/Branch Offices:
• Bombay • Calcutta • Madras
• New Delhi • Ahmedabad
• Bangalore • Cochin
• Hyderabad • Ludhiana • Pune
• Varanasi.

Adroit-5274

Banking Industry in India: A Changing Scenario for the Eighties

By A. K. RAJULA DEVI *

THE nationalisation of 14 major commercial banks in July 1969 was a significant land mark in the history of commercial banking in India. Since then, the developments that have taken place in the banking industry are not only far reaching but perhaps have no parallel elsewhere. The paper examines the Indian banking scene since 1969 to the present day.

The banking scene in India prior to 1969 was characterised by concentration of business in metropolitan and urban centres with the major industries and wholesale trade claiming a large chunk of bank credit and the control and management of major banks being held by leading business tycoons in the country. Loans were advanced not on the basis of the viability of the scheme but on the credit-worthiness of the borrowers. The performance of a bank was judged by the amount of profit it made and the dividend it declared.

It was very difficult, in such an atmosphere, for a small entrepreneur or a small farmer to procure credit even if he had a viable scheme. No wonder agriculture, which employed about 70 per cent of the labour force and contributed about 50 per cent of the national income got only 2 per cent of total bank credit. Many bankers felt that commercial banks were not suitable to serve the interest of farmers, small business and rural artisans.

The major objectives of nationalisation were: (a) to reduce the glaring regional imbalances in banking development; and (b) to make banks responsive to the needs of national development and aspirations of the common man. To fulfil these objectives commercial banks were encouraged to open more branch offices in rural areas and unbanked centres and to deploy a larger share of their credit to the hither-to neglected sectors like agriculture, small scale industry and other welfare schemes. Within these sectors banks were advised to set aside a reasonable share of their lending to the economically weaker sections.

Branch Expansion

The spread of the banking net work to rural areas and the fairly even dispersal of bank branches in many states during the post-nationalisation era was phenomenal. From 8,262 in July 1969, the total number of bank branches rose to 32,419 in June 1980—a four-fold increase in about eleven years.

With the rapid expansion of bank branches, particularly in rural areas, the population served per branch progressively declined from 65,000 in 1969 to 17,000 in June 1980. The spread of banking net work in rural areas, both in relative and absolute terms was indeed very impressive. In June 1969, there were only 1,832 bank branches in rural areas accounting for about 22 per cent of the total for the country. In June 1980, the number of rural bank branches rose to 15,101, their share doubling to 46.6 per cent. During the same period, although the number of branches in semi-urban, urban and metropolitan centres has increased as may be seen from Table-1 in relative terms, their shares have come down.

For example the relative share of urban and metropolitan centres declined from 31.6 to 28.5 per cent. Of the 24,157 additional branches opened since bank nationalisation, 13,269 accounting for about 55 per cent, were opened in rural areas. On the other hand, the share of metropolitan centres was only about 11 per cent. The thrust in the branch expansion policy has been to reduce the inter-state disparity in the availability of banking facilities and, within the states, the disparity between districts. Commercial banks were, therefore, asked to cover backward areas and unbanked centres in order to accelerate the socio-economic development.

Inspite of massive branch expansion by the commercial banks, the population served per branch was very high in some states like Assam and other areas in the North-Eastern region, Orissa and Bihar. In these states commercial banks are facing many problems in opening branches owing to lack of infrastructural facilities, wider dispersal

TABLE 1

DISTRIBUTION OF COMMERCIAL BANK OFFICES

	June 1969		June 1980		Increase during the period from June 1969 to June 1980	
Centres	No. of branches	%	No. of branches	%	No. of branches	%
Rural	1832	22.2	15101	46.6	13269	54.9
Semi-urban	3322	40.2	8078	24.9	4756	19.7
Urban	1447	17.5	4856	15.0	3409	14.1
Metropolitan	1661	20.1	4384	13.5	2723	11.3
Total	8262	100.00	32419	100.00	24157	100.00

Source : Department of Banking operations and Development — R. B. I.

---

*Research Associate, Department of Rural Industries and Employment, Rajendranagar, Hyderabad - 500 030 (A.P.)

TABLE 2

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Rs. in crores)

Sectors	Amount outstanding June 1969	Percentage	Amount outstanding March 1980	Percentage
1. Agriculture	188	5.2	2766	13.0
2. Small scale industry	286	7.9	2630	12.4
3. Other priority of sectors	30	0.9	1333	6.3
4. Total priority sectors	504	14.0	6729	31.7
5. Exports	258	7.1	1640	7.7
6. Public food procurement	233	6.5	2100	9.9
7. Large & medium industries	1879	52.2	8341	39.2
8. Wholesale trade	385	10.6	1915	9.0
9. Other sectors	341	9.4	509	2.4
10. Aggregate credit	3600	100.00	21234	100.00

Source : 1. R.B.I., Annual Report – 1969-70. July 1970, pp. 12.
2. R.B.I. Annual Report – 1979-80, July, pp. 18.

of population and hilly terrain among other reasons. To reduce the inter-state disparity in the net work of branches further, the Reserve Bank has formulated a programme which envisages the opening of 6,500 branches in 1979-81. The emphasis in the new policy is to promote branch expansion mainly in the states where the population served per branch was very high.

Deployment of Credit

Commercial banks have been under pressure from the government to step up advances to 'priority sectors' comprising agriculture, small industry and other welfare measures. As a result total bank credit has risen from Rs. 3,600 crores in June 1969 to Rs. 2,1234 crores in March 1980 (See Table 2).

Table 2 presents a bird's eye view of the growing involvement of commercial bank in the deployment of agriculture and other priority sector schemes which necessitated a larger flow of credit to these sectors. Priority sector advances rose from Rs. 504 crores in June 1969 to Rs. 6,729 crores in March 1980, taking their share from 14 per cent to 31.7 per cent. Although this was lower than the target of 33½ per cent that the commercial banks were required to achieve before March 1979, their performance was commendable. The share of agriculture rose from 5.2 per cent to 13 per cent while the share of target medium industries declined from 52.2 to 39.2 per cent.

While financing priority sector schemes emphasis has been on meeting the financial requirements of the weaker sections of the society like small farmers, margi-

STATE BANK OF MYSORE

A Premier Bank of Karnataka

AN ASSOCIATE OF STATE BANK OF INDIA

Pioneers In Financing

SMALL SCALE INDUSTRIES & AGRICULTURE

With a net-work of more than 300 branches in the State, we are committed to the growth and economic development of Karnataka

Head Office,
Bangalore-560 009

M. B. DESHMUKH
Managing Director

nal farmers, landless labourers, rural artisans, small entrepreneurs, scheduled castes, scheduled tribes etc. Special schemes attuned to the traditional skill and economic background of the target groups were formulated and loans were extended to keep them engaged in gainful occupations. Recently the Union Government has impressed upon commercial banks the need to step up credit to beneficiaries of the 20-Point Economic Programme also.

It is very appropriate in this context to mention the Differential Rate of Interest (D. R. I.) Scheme introduced in 1972, under which commercial banks are required to deploy 1 per cent of their total advances to the weaker sections of society at a low interest rate of 4 per cent. The Scheme was designed to promote gainful employment among the poorer segment of the community. In the revised guidelines recently issued by the Reserve Bank, Commercial banks were asked to set aside 40 per cent of the advences under the D. R. I. Scheme to beneficiaries belonging to Scheduled Castes and Scheduled Tribes.

TABLE 3

PROGRESS OF LENDING UNDER D. I. R.

As at the end of June	No. of accounts (lakhs)	Balance outstanding (Rs. in crores)
1974	2.6	10.85
1975	3.3	14.23
1976	5.3	24.58
1977	11.1	52.10
1978	14.5	71.24
1979	18.3	114.00

Source : Department of Banking Operations and Development. R. B. I.

At the end of June 1979 the total number of beneficiaries under the scheme stood at 18.30 lakhs and the amount advanced at Rs. 114 crores. At the same time, the share of Differential Rate of Interest advances in total advances reached 0 8 per cent. The rapid inroads made by the commercial bank branches in the rural and semi-urban areas created wide disparity in the development of credit in relation to deposits within a region. The unusually low credit-deposit ratios in some areas gave rise to wide apprehension that deposits mobilized in rural and semi-urban areas were diverted to urban centres. Therefore, the public sector banks were advised that they should try to achieve a credit-deposit ratio of 60 per cent in their rural and semi-urban branches by March 1979. The data available for end-June 1979 show that at the all India level, credit-deposit ratios for rural and semi-urban branches were 54.4 and 47.2 per cent respectively.

Besides direct financing, commercial banks provided financial assistance to farmers for a number of economic activities through the primary cooperative societies and farmers service societies (F.S.S.). From the introduction of the scheme in June 1974 upto December 1979, 5.86 lakh members were admitted to the Cooperative Societies taken over by Commercial Banks. Short term agricultural loans totalling Rs. 16 crores and Rs. 2.4 crores worth of medium term loans were provided by commercial banks through the adopted Societies. At the end of June 1979, 18 public sector banks had set up 216 Farmers Service Societies in 13 states in thecountry.

The number of beneficiaries from bank finance has risen tremendously along with the increase in the flow of credit to priority sectors. The number of borrowal accounts in the priority sectors which stood at 2.60 lakhs in June 1969 jumped up to 1 million by the end of June 1979. Within this number, a significant proporation of beneficiaries comprised of small farmers, marginal fasmers, landless labourers and rural artisans.

No less impressive was the performance of commercial banks in mobilising deposits which rose from Rs. 4,665 crores in June 1969 to Rs. 23,312 crores in June 1980. Expansion of branch net work in rural and semi-urban areas and unbanked centres helped to tap savings from new sources. Besides, commercial banks formulated novel saving schemes to mobilise savings from public.

Lead Bank Scheme

Under the Lead Bank Scheme, the public sector banks and a few private sector banks were allotted certain districts where they were asked to take up a leadership role in promoting banking activities and also in accelerating the tempo of economic development in the lead districts, by identifying bankable schemes covering priority sectors within a time-frame in collaboration with other financial institutions in these districts. As a preliminary step towards the fulfilment of these objectives, the public sector banks carried out developmental surveys of different districts, to assess the development potential in different sectors and to identify growth centres for opening bank branches. In the second phase, they were asked to formulate development plans for each lead district which contained economically viable and technically feasible schemes covering agriculture, small scale industries and other welfare measures. The implementation of the lead bank scheme gave a fillip to the spread of branch net work in rural areas and the flow of credit to the weaker sections of society.

The experience of commercial banks in implementing the credit plan since 1974 has been rather disappointing. In some districts, while the participating financial institutions achieved the plan targets much before the expiry of the plan period, in some others, the overall performance lagged behind the targets. Moreover there was no uniformily either in the methodology adopted in formulating the district plans or in the periods covered in different plans. To bring about a degree uniformity in the methodology and period covered and to synchronise credit plans with the national five year plan periods, the Reserve Bank of India has asked commercial banks to terminate the first round of credit plans and formulate fresh credit plans for the period 1980-82. In terms of the new guidelines of the Reserve Bank, all public scetor banks formulated fresh credit plans for 1980–82 and started implementing them as early as 1980.

With the phenomenal expansion of the banking net work in rural and semi-urban areas the growing involvement of banks in the development of agriculture, small industry and other welfare schemes and the need to achieve the socio-economic objectives set by the government, business planning exercises in commercial banks become unavoidable. For this purpose, performance budgeting was introduced in commercial banks in the mid seventies. The system envisaged business planning at the branch level in tune with the broad corporate objectives, which are integrated with the bank's plan with regard to its current business.

Each branch manager is required to prepare an annual plan for his branch, indicating the targets for deposit mobilisation and credit deployment in various sectors, in accordance with: (1) the national objectives; (2) in the light of the past experience of the branch; and (3) the anticipated growth of business in the area of operation. For this purpose, training facilities have been enlarged to impart basic training in planning techniques to branch managers. However, it may take a few more years before performance budgeting becomes an integral partof banking operations.

Regional Rural Banks

Even as the commercial banks were making deep inroads in rural areas and endeavouring to meet the credit requirements of farmers, artisans, small business groups and other target groups, the government came out with the view that in view of the high cost of bank credit and the lack of rural orientation of the bank staff, a new agency would be necessary to meet the credit needs of small farmers, marginal farmers, landless labourers and rural artisans. Out of this thinking emerged the concept of regional rural banks and the first RRB. was set up in October, 1975. At the end of 1980 these were 85 RRBs. in 17 states covering 141 districts in the country. The Dantwala Committee had concluded that the RRBs. have been able to achieve the main objectives of helping the weaker sections in the rural areas by providing credit to suit their requirements. It was found that out of the total borrowers, 70 per cent were small farmers, marginal farmers and landless labourers, 25 per cent were rural artisans, retail traders and other unemployed persons. Therefore, despite the initial opposition of many states, it is proposed to set up 70 more RRBs. during the VI plan period.

The growing involvement of commercial banks in the development of priority sectors has put considerable financial strain on them. The burden of nursing sick units back to health is causing serious concern to bankers. The number of sick units with credit limits of Rs. one crore and above had increased to 345 involving aggregate bank credit of Rs. 1,102 crores at the end of June 1979, which accounted for about 6 per cent of total bank credit. Besides, there were around 20,700 sick small scale industries accounting for outstanding bank credit of Rs. 245 crores. There is a need for insulating commercial banks from the ill-effects of spreading sickness in Industry. To improve the viability of commercial banks the Reserve Bank of India may have to give serious attention to these problems.

The Reserve Bank of India has played a key role in guiding the business operations of commercial banks in tune with the national socio-economic objectives set up by the government. Through its branch expansion policy, the Reserve Bank has encouraged commercial banks to open branches in rural areas and to diversify

YOUR SAVINGS GROW FAST IN
BANK OF MADURA'S
DEPOSIT SCHEMES

AMUDHA SURABI DEPOSIT SCHEME

COMPREHENSIVE CUMULATIVE MULTIPURPOSE DEPOSIT SCHEME

MONTHLY INTEREST DEPOSIT SCHEME

SMALL SAVINGS PRIZE DEPOSIT SCHEME Rs. 500/- SERIES

FIXED DEPOSIT FROM 3 YEARS CARRIES INTEREST AT 10%

ALL TYPES OF BANKING BUSINESS TRANSACTED INCLUDING FOREIGN EXCHANGE

LOCKER FACILITY AVAILABLE AT MANY BRANCHES

COME TO US TO GUIDE YOU:

BANK OF MADURA LIMITED
(A Major Scheduled Bank In India)

Regd. Office : **33, North Chitrai Street, MADURI-625 001.**

Central Office : **758, Mount Road, MADRAS-600 002.**

RM. MUTHIAH
Chairman

their credit portfolio to cover a number of activities in order to achive national objectives. It has introduced a scheme of refinance to enable commercial banks to meet the credit needs of the weaker sections for productive purposes. Besides, it has provided insurance support to commercial banks to overcome their inhibition in lending to small borrowers by setting up the Credit Guarantee Corporation of India which was later merged with the Deposit Insurance Corporation.

TABLE—4

INDIAN BANKING SCENE AT A GLANCE

	Scheduled commercial banks	June 1969	June 1979
1.	Number of offices	8262	30302
2.	Average population per bank office	65000	18000
3.	Rural Offices	1832	13333
4.	Percentage of rural deposits to total deposits	3.1	10.1
5.	Aggregate deposits (Rs. in crores)	4646	30836 (December 1979)
6.	Per capita deposit	88	568
7.	Bank deposits as percentage to National Income	15.3	32,5
8.	Aggregate advances (Rs. in crores)	3599	20859
9.	Per capita credit (Rs.)	68	338
10.	Average credit per account (Rs.)	32000	13280 (December 1979)
11.	Priority Sector Advances (Rs. & %)	505 (15%)	5677 (30,6%)
12.	Investment in government and other approved securities (Rs. in crores)	1045	11006
13.	Number of deposit Accounts (crores)	1.83	11
14.	Number of borrowal Accounts (lakhs)	11	155

Source : Data compiled from R. B. I. Annual Reports of 1969-70 and 1979-80.

Operational Constraints

Commendable all-round achievements in the post-nationalisation period have taken their toll. This has been manifested in a decline in profit, a strain on manpower and a deterioration in customers' services. The profitability of commercial banks has come down due to a number of factors. Continuing rise in expenditure, including frequent wage increases without commensurate increase in income despite expansion in business has made deep inroads into the earnings of banks. Large-scale expansion of branches to rural and semi-urban areas, increase in the cost of establishment, stationary, etc., have pushed up expenditure. At the same time, the rise in the priority sector advances which yield a low rate of return and pre-emption of 40 per cent of their deposits with the Reserve Bank have reduced their rate of growth of earnings. The profits of commercial banks (after provision of taxation, bonus and ex-gratia payments to staff) stood at Rs. 34.28 crores in 1979 compared to Rs. 39 78 crores in 1976.

The performance of RRBs. is even worse. Only 34 out of 60 for which data are available made some profit. This bleak picture emerges despite the fact that RRBs. have been allowed a number of concessional terms. For example, they can avail of refinance at a concessional rate of 3 per cent, they are allowed to maintain a low cash reserve ratio of 25 per cent against 34 per cent for other banks and offer ½ per cent higher rate of interest on deposits than other banks.

Large scale geographical expansion and diversification of business has not been an unmixed blessing. With the growth of business in development financing, introduction of a large number of technical officers, agriculturists and economists became necessary. Acute shortage of qualified and trained officers to manage the branches developed. Explosions in banking business, particularly in rural areas, caused a strain on the existing training facilities. Lack of synchronisation between business expansion and manpower planning led to fall in efficieney and faulty financing and weak supervision of end-use of credit at times resulting in poor recovery. Besides, there have been complaints of deterioration in customer service. The personal touch in service that was the hall-mark of service before 1969 rapidly evaporated.

Peeping into Future

On the basis of the recent trends in the development of banking and given the emphasis on reduction of regional disparity in economic growth, reduction in unemployment and under-employment, elimination of poverty, etc. one could visualise the emerging banking scenario in the eighties.

Although the peace of branch expansion may decelerate as the banking net work spreads to remote areas, there will yet be areas having a density of branch offices much below the national average. Besides, income and trade will grow necessitating expansion of banking services. Allthings considered, it would not be highly optimistic to envisage an average annual addition of 2,500 branches in the eighties. On this reckoning, the total number of commercial bank branches may touch 60,000 at the end of the 1980s.

The demand for credit will undoubtedly grow as the pace of economic development accelerates. But, given the thrust of development policy, the political imperative of improving the economic condition of the poor by engaging them in productive activities, and the need to reduce the disparity in income distribution, the share of priority sectors, in bank credit is likely to be pushed up from 40 per cent stipulated for 1985 to 45 per cent or even 50 per cent at the end of the 1980s. Along with a higher percentage of bank credit going to priority sectors, banks may be asked to finance procurement of sensitive agricultural commodities like oilseeds, cotton, jute, etc. by the public procurement agencies, in order to ensure fair prices to producers and stabilise agricultural prices at reasonable levels. At the same time, a much lesser share than at present will be committed to big and medium industries and wholesale trade. Thus, the movement towards extending banking facilities to the masses, set off in the seventies, will gather momentum in the eighties.

KALPATHARUVU- offers you twice the security

Deposit any amount convenient to you in multiples of Rs. 50/- If you deposit Rs. 100/- for 10 years under the KALPATHARUVU SCHEME, Andhra Bank will pay you back Rs. 268.55. If you deposit Rs. 10,000/- we will pay you back Rs. 26,855/- more than 2½ times your original deposit.

The KALPATHARUVU SCHEME was created for you to deposit your lump sums like marriage gift money, provident fund, gratuity, lottery gains, accumulated savings. The advantage is that you retain a bank balance and still keep the money away from any temptation to spend it while it earns handsome returns for you.

Get details on our KALPATHARUVU SCHEME from any of our branches.

10 years to double your money and more...

KALPATHARUVU
KALPATHARUVU
KALPATHARUVU

COME
WITH US
TO
PROSPERITY

Andhra Bank
(A Govt. of India Undertaking)
Central Office, Sultan Bazaar, Hyderabad.

ACIL 0229 81

Role of Commercial Banks in Eradicating Poverty: An Assessment

By R. RAGHUPATHY *

THE nationalisation of fourteen major commercial banks in July 1969 constitutes an explicit recognition of the strategic role of bank fianance in achieving the plan objectives. The nationalisation of the Imperial Bank in 1955 was done mainly for expanding banking facilities to the rural areas. The step taken in 1969 laid down objectives similar to those for the State Bank of India and added a few others. They are: (i) wider geographical and regional spread of branch network; (ii) faster mobilisation of untapped financial resources through bank deposits; and (iii) re-organisation of credit port-folio in favour of small and neglected classes all along the production spectrum.

Historically, the Indian banking system, like many others in the developing economies of Asia, Africa had been biassed towards security. It was mainly urban-oriented; and even among the urban branches there was a heavy concentration of banking facilities in a few selected metropolitan centres. To overcome this lop-sided development, major banks were nationalised with emphasis on vigorous branch expansion. The basic criterion behind the branch expansion programme is to provide banking facilities to rural backward areas. Besides, the other important concomitant of nationalisation is mobilisation of domestic resources and the resource allocation with the objective of maximisation of social benefits. It connotes an attempt to deal with spatial problems.

During the last eleven years, the banks have extended their services to a wider geographical area in their attempt to inculcate banking habits in the country, and consequently the composition of monetary circulation has altered markedly the structure of bank deposits vis a vis currency. In tune with the progress of the country's economic development, the composition of credit portfolio of the banks has also undergone a remarkable transformation. In con sonance with this call for the fulfilment of social obligations, commercial banks are now more conscious of their obligations towards the strategicsectors of economy, such as agriculture and small scale industries and weaker sections of the society.

There is still a long way to go before our banking system can make a really effective contribution to development. The fact stands out that the banks have done in the last eleven years much more than they ever did in the past. But the development imperatives of the country call for much more than has been achieved, particularly in respect of the quality of development and in respect of geographical areas, population groups and production sectors. If the objectives have not yet been fully achieved, the fault does not lie entirely with the bankers, but with those whose task it is to integrate all the powerful instruments of development into an efficient system.

Economic integration is linked more with the overall economic planning than with more homogenous bank planning. This calls for the linking of bank plan with the overall economic planning. Perhaps, this issue of linking the activities of all the commercial banks and other financial institutions with overall investment pattern envisaged in the plan document has not been thought of adequately. Although all possible efforts are made to maintain close co-ordination with the state government agencies, the plans of the state governments that have been so far evolved, do not clearly indicate in what direction the bank assistance should be made available in the interest of the weaker sections of the community. Where expansion of credit has been haphazardly tried, it has helped the reallocation of credit only to a marginal extent and correspondingly, the attempt to develop regions has not proved to be very fruitful. A lot of duplication of efforts and overlapping in financing by various financial agencies exist. This is because there is no proper linkage and area-specification between commercial banks, other financial institutions and the governmental agencies.

The national income of India is too small for its total population. In addition, the economic structure of the Indian society is such that about 50 per cent of the population subsists below the poverty line. These individuals some how manage to live on a family income less than Rs. 3,500 per annum. These figures indicate the extent of misery of our people only to a limited extent. Below these statistical details the problem of poverty is too frightening to even imagine. This should not, however, deter one from looking at the problem more closely and from attempting to prepare suitable strategies.

The people living below the poverty line belong to such categories as small and marginal farmers, landless labourers, bonded labourers, tribals, harijans etc. They are mostly illiterate and are not even aware of the efforts being made by the governments, developmental agencies and banks to alleviate this lot. The poverty they live in is unimaginable. However, it is time that the problem of poverty is properly highlighted and tackled.

The *per capita* calorie supply as percentage of *per capita* calorie requirement is only about 90 per cent in the case of Indian people. In addition to the calorie deficiency, the Indian people are also facing the problem of 'protein deficiency'. As against an average daily requirement of 2,700 calories per adult, the actual consumption is only about 200 calories in India.

---

* Mr. Raghupathy is Chairman and Managing Director, Syndicate Bank.

The nutrition gap is largely responsible for the low levels of productivity of Indian labour. Millions of Indians, particularly in the villages and small towns are literally half-naked. The *per capita* availability of cloth is just about 17 metres per annum.

According to the 1971 census, about 62 per cent of the houses in India are made of grass, leaves, reeds, bamboo, mud, unburnt bricks, wood or G. I Sheets or other metal sheets. Less than one per cent of the houses are constructed with cement and concrete. Data on the number of houseless persons is not available. The housing shortage has been roughly placed at 19.7 million units,

The poverty of our people is further worsened by continuously rising prices of commodities and inadequate employment opportunities. The percentage of population below the poverty line is increasing rapidly. The enormity of the problem of poverty is such that one cannot expect the local, state and central governments to solve the problem overnight. The problem needs to be tackled by the people themselves with the help of the government and other agencies. One can at best expect the government to provide certain agencies and facilities for the economic upliftment of the poor. But, it is the people who should utilise the services of these agencies and facilities to solve their economic nomic problems. It is imperative, on the part of all those interested in solving the problem of poverty, to make people realise their responsibility to themselves and not to expect their problems to be solved by the government overnight.

Like the economically poor classes of people, there are a large number of economically backward areas or districts in the country. The lead bank scheme introduced in 1969 is aiming at reducing the inter-distrist disparities in the avaiability of bank credit. District Credit Plans have been formulated to regulate the sectoral and spatial flow of credit. However the available data indicate that the very size of the credit plans in the case of the backward distrtcts is much smaller when compared to the credit requirements of these backward districts. It is therefore necessary to attune the credit planning exercise to the overall needs of the backward districts.

Commercial Banks, particularly those in the public sector, are assigned the important task of providing finance to weaker sections of the society. The banks should not rest contented with merely lending funds to the weaker sections, but should motivate every household below the poverty line to undertake economic activities that would lift them above the poverty line. If necessary, the banks may have to identify economic activities that can be undertaken profitably by the poor people and pursuade the people to undertake them with the help of bank finance.

The efforts of the banks towards uplifting the poor should be aimed at ensuring that each one of the bank borrowers gets finance and encouragement from banks at least until they rise above the poverty line. Unless this is ensured, the efforts of the banks may not make any significant impact on reducing the poverty in the country.

Plan Your Future........

The 'ANANTHA' Way

The only way to assure yourself a regular income for all time to come !

When all your sources seem to be drying out and your future looks bleak, there is one that you can rely on: ANANTHA

Contribute Rs. 100 monthly for 84 months and we will pay you Rs. 100 monthly FOREVER !

That is why we have called it as

ANANTHA DEPOSIT SCHEME

KARNATAKA BANK LIMITED

Head Office : **MANGALORE-575 003**

A Frame Work for Restructuring Commercial Banks: Some Suggestions

By J. P. MATHUR *

THE seventies witnessed a phenomenal change in the complexion of banking industry in the country structurally, georgaphically, functionally and even conceptually. The structural change consisted of the nationalisation of 14 Banks in mid-1969 and launching of Regional Rural Banks in October 1975. Geographicaly, the commercial banks reached out to the remotest corner of the country to set up branches. In a majority of such centres, even the basic infrastructural facilities were absent. Yet, it was a part of a policy decision to reduce regional disparities in the availability of banking facilities, and the objective was achieved to a large extent. Functionally, banks are now not only collecting deposits and deploying them to earn profit but are required to act as catalytic agents in the process of the upliftment of society and economicaly backward sections by participating in the Integrated Rural Development Programme and several other similar programmes. In addition to this, they are called upon to provide finance for procurement of foodgrain, construction of low cost housing schemes, rehabilitation of sick industrial units etc. Conceptually, banking is no more a preserve of a privileged "class" but has assumed a "mass" status.

Consequently, during the post-nationalisation decade, operations of banking industry have assumed gigantic proportions. The number of branches increased from 8,321 in July 1969 to 34,587 at the end of Dec. 1980 thereby reducing the average population per branch drasticaly from 65,000 to 17,000. Total deposits of the banking system have increased from a mere Rs. 4,684 crores in July 1969 to Rs. 36,843 crores at the end of December, 1980 constituting 33.8 per cent of the GNP as against 15 per cent in 1969. The number of Regional Rural Banks increased from 6 in 1975 to 73 at the end of June 1980.

What are the implications of the present banking structure? It will be observed that the banking structure lacks homogeneity and direction in the sense that banks of several sizes co-exist and there is a virtual scramble by all to spread in every possible nook and corner of the country. This has been mainly due to a rather haphazard branch expansion policy pursued by the Reserve Bank of India. In its zeal to reduce the ratio of population served per branch it permitted each bank to set up branch in any part of the country. As a result, there is probably no important town at district level that doesn't have a branch of all public sector and almost all the larger private sector banks. There are banks in public sector, private sector and co-operative sector besides Regional Rural Banks.

There are wide disparities in sizes. The largest of the banks in terms of the number of branches (other than State Bank of India) comprised 1,716 branches and had aggregate deposits of Rs. 2,335 crores in 1979. The smallest bank in the nationalised sector had aggregate deposits of Rs. 152 crores and a network of 183 branches in 1979. In the private sector the largest bank in terms of deposits after nationalisation in April 1980 had deposits of Rs. 160 crores and branches numbering 190 in 1979. In terms of branch expansion too the number of branches of the largest bank were 287. The smallest bank in the private sector had 19 branches and aggregate deposits of Rs. 3 crores in 1979.

The pace of expansion and growth has brought in its wake numerous problems and the banks whether in the private sector or public sector have been subjected to severe stresses and strains. These problems are mainly in the areas of management controls, organisation communication and personnel and human relations. Frequent work stoppages by workmen as well as managerial trade unions, restrictive work practices, declining profitability and an alarming proportion of bad debts are only some of the manifestations of the problems. It has been estimated that at the present rate of growth there will be nearly 54,000 branches of commercial banks by the 1st quarter of 1985. The deposits would exceed Rs. 82,000 crores and advances will be over Rs. 54,000 crores. The number of employees would be roughly 10,00,000. Thus the problems will only aggravate.

Recently, the officers of the Associate (Subsidiaries) Banks of the State Bank of India, at their annual meeting, demanded that the seven Associate Banks be delinked from the State Bank of India and regrouped into one or two major banks. They complained of being treated as "bonded labour" and "hewers of wood and drawers of water" by the State Bank of India and of excessive interference by the latter to its own advantage. This is probably the culmination of a superiority complex in the management of State Bank of India arising out of a difference in ownership of the associate banks. These banks comprise the banks in erstwhile princely states which were made subsidiaries of State Bank of India to protect them from competition from the private sector banks.

They had small areas of operations and their standards of performance differ greatly from those of the State Bank of India. It was also pointed out by the Officers' body that the growth of the Associate Banks had been tardy when compared to other

---

* Mr. Mathur is O & M Officer (Reorganisation) Bank of Rajasthan, Jaipur.

United Bank of India

Head Office : 16, Old Court House Street, Calcutta-700 001

31st Dec. 1979	STATEMENT OF POSITION	31st Dec. 1980

LIABILITIES

Rs.		Rs.
2,68,77,119	Capital : Paid-up Capital	2,68,77,119
3,68,44,491	Reserve Fund etc.	4,01,44,491
12,19,75,46,849	Deposits & Other Accounts	13,26,14,80,785
69,19,58,099	Borrowings from Banks, Agents	44,76,78,228
35,98,75,849	Bills Payable	61,79,55,554
69,47,32,505	Bills for collection per contra	71,17,12,415
10,33,34,608	Other Liabilities	13,36,82,199
49,02,44,044	Acceptances, endorsements etc. per contra	62,32,37,293

Profit & Loss Account

3,74,422	Balance of Profit as per last Balance Sheet	4,48,432
3,74,422	Less transferred to Central Govt.	4,48,432
1,36,48,432	Balance of profit for the year Less : Transferred to :	1,23,10,815
35,00,000	(1) Reserve Fund	33,00,000
93,00,000	(2) Provision for Bonus	82,00,000
4,00,000	(3) Investment Reserve	4,00,000
4,48,432	Balance to be transferred to Central Government	4,10,815
14,60,18,61,996		15,86,31,78,899

ASSETS

1,82,46,92,603	Cash in hand and with banks	1,92,85,62,732
3,00,000	Money at call and short notice	3,00,000
3,79,42,11,956	Investments (at or below cost)	4,22,69,57,106
7,03,22,74,186	Loans & Advances	7,42,18,19,919
69,47,32,505	Bills for collection per contra	71,17,12,415
49,02,44,044	Acceptances, endorsements etc. per contra	62,32,37,293
3,60,67,286	Premises	3,95,49,581
4,00,34,117	Furniture & Fixtures	4,13,85,640
68,70,29,183	Other Assets	86,74,69,229
22,76,116	Non-Banking Assets (at book value)	21,84,984
14,60,18,61,996		15,86,31,78,899

naa.UBI

nationalised banks. The example of Bank of Baroda was cited which had reportedly refused to become a subsidiary bank and had subsequently grown to become the largest bank of the country. Incidentally, it has been revealed by published figures that the seven associate banks have lagged behind not only all the 14 nationalised banks but also six of the private sector banks (which were subsequently nationalised in April 1980).

There is also a growing discontent in the private sector banks about the step motherly treatment meted out to them by the government as well as their apex organisation, the Indian Banks Association. With the nationalisation of six private sector banks this year, the public sector banks numbering 20 now command as much 91 per cent of the total deposits of the banking sector while the share of Indian private sector banks numbering 33 is only 4.5 per cent. Further, there is no differentiation between the two sectors in the matter of implementation of the policies formulated by the government or the Reserve Bank in respect of branch expansion, credit control etc., the interest rate structure and similar areas. In addition to this, the managements of private sector banks are subject to government control in the management and other operational matters. That being the case there is hardly any justification for continuing a large number of banks in the private sector.

An argument generally put forth in support of the existing structure is that it promotes a spirit of competition amongst the various banks as well as the two important sectors namely public & private. Such competition, it is argued, is necessary for ensuring operational efficiency. There are two issues involved in the matter of competition in banking industry since there is no product-differentiation and market segmentation as far as the product is concerned. Thus, there can be competition in either pricing of the service or the quality of service rendered. As far as pricing of services is concerned, the commercial banks do not have any discretion regarding the rates of interest to be paid on deposits.

Regarding advances, the minimum lending rate and maximum ceiling rates have been prescribed. But taking into consideration the statutory and other requirements, the Banks have only about 15 per cent of their funds to deploy at profitable rates. Regarding other services like discounting of bills, cheques, drafts, etc. the rates charged are arbitrarily fixed and these are not strictly related to the costs incurred in rendering these services and some of the banks have been charging low rates without any consideration of profits. The range of services is also more or less standard and with a strict code of ethics and ground rules being observed by the banks in mobilising deposits whatever competition that is made out to exist is only hypothetical and unproductive, unhealthy and wasteful. Moreover looking to the wide disparities in sizes of banks the competition is not on equal terms.

Quality of service depends upon the attitude of the branch personnel and in this one branch is only better or worse than the other irrespective of the parent bank. Therefore it is immaterial whether there are 50 banks or even more or less as far as competition aspect is concerned.

We thus come to the conclusion that a restructuring of the banking system is the need of the hour. The sooner it is taken up the better. This is not to state that this issue has cropped up only now. In the past the Saraiya Commission (1971), the James Raj Committee (1977) and the Manubhai Shah Commission (which was wound up prematurely in 1977) had been asked to examine it. The various alternatives put forth by the above mentioned bodies have been given below:

1. Setting up a monolithic organisation on the lines of Life Insurance Corporation of India by merging all the banks. (Saraiya and Shah Commission)

2. Retaining State Bank of India and a few nationalised banks, viz., Central Bank, Bank of India and Bank of Baroda as all India Banks and regrouping the remaining into 5-6 regional or zonal banks operating over geographicaly contiguous states. (Saraiya Commission).

3. Forming two national banks — first by merging with State Bank of India those of the associate banks which were considered to be "weak" and the second by merging the remaining associate banks with the 14 nationalised banks (Shah Commission).

4. Retaining only the S. B. I. as a national Bank and forming 5-6 regional/zonal banks out of the associate banks and the nationalised banks (Shah Commission).

5. Splitting S.B.I. into 5 zonal banks and these along with three of the associate banks viz. State Bank of Indore, State Bank of Saurashtra and State Bank of Patiala to be made as subsidiary banks with the State Bank of India as holding company (James Raj Committee).

6. Delinking four other associate banks viz. State Bank of Hyderabad, S. S. B. J., State Bank of Maharashtra and State Bank of Travancore from the State Bank group and giving them independent status (Raj Committee).

7. Forming three new public sector banks for each of the north eastern, northern and central region (Raj Committee).

Incidentally, all the alternatives stated above relate to restructuring of public sector banks only as the private sector banks were left out of the purview of terms of reference of these expert bodies. In the present circumstances, for the reasons stated earlier, it is necessary to consider the restructuring of the entire banking system both the public and private sectors. The restructuring should broadly aim at either:

(i) having all banks in the nationalised sector or alternatively;

(ii) having all banks except say the State Bank of India in the private sector.

In either case, a further restructuring/regrouping calling for bold policy decisions will be desirable. The setting up of a single banking corporation has apparently the advantage of effective implementation of the government's monetary and credit policies. It will also aviod the unnecessary and wasteful expenditure presently incurred by banks in advertising and publicity. But in practice, this alternative is likely to present

States/Union Territory	No. of branches June 1969	No. of branches June 1980	Name of Banks
		I. NORTHERN ZONE	
1. J & K	35	394	*All India Banks (One)*
2. Punjab	354	1544	i) Punjab National Bank
3. Haryana	178	746	
4. Chandigarh	21	78	*Regional Bank (One)*
5. Delhi	274	837	*Comprising*
6. Himachal Pradesh	41	324	i) State Bank of Patiala
			ii) Punjab & Sind Bank.
			iii) New Bank of India.
			iv) Oriental Bank of Commerce.
Total :	899	3923	
		II. WESTERN ZONE	
1. Gujrat	758	2243	*All India Banks (Two)*
2. Maharashtra	1125	3320	i) Central Bank of India
3. Goa, Daman & Div	87	232	ii) Bank of Baroda
4. Dadra & Nagar-Haveli	1	4	*Regional Bank (One)*
			Comprising
			i) Dena Bank
			ii) Bank of India
			iii) Bank of Maharashtra
			iv) State Bank of Saurashtra.
			v) Union Bank of India
Total ;	1971	5799	
		III. CENTRAL ZONE	
1. M. P.	344	1842	*All India Banks (Two)*
2. Rajasthan	369	1471	i) Central Bank of India
3. U. P.	753	3740	ii) Punjab National Bank
			Regional Bank (One)
			Comprising
			i) Allahabad Bank
			ii) State Bank of Indore
			iii) State Bank of Bikaner & Jaipur.
Total :	1466	7053	
		IV. EASTERN ZONE	
1. West Bengal	505	2040	*Regional Bank (One)*
2. Bihar	274	1907	*Comprising*
3. Orissa	100	815	i) United Commercial Bank.
4. Andaman & Nikabar	1	12	ii) United Bank of India
Total :	880	4774	
		V. SOUTHERN ZONE	
1. Andhra Pradesh	571	2477	*Regional Bank I-*
2. Tamil Nadu	1066	2814	*Comprising*
3. Karnataka	761	2636	i) Canara Bank
4. Kerala	605	2191	ii) Syndicate Bank
5. Pondicherry	12	48	iii) Corporation Bank
6. Lakshadweep	1	5	iv) State Bank of Mysore
			v) Vijaya Bank
			vi) State Bank of Travancore
			Regional Bank II- Comprising-
			i) Indian Overseas Bank.
			ii) Indian Bank
			iii) Andhra Bank
			iv) State Bank of Hyderabad.
Total :	3116	10171	

IV. (A) NORTH EASTERN ZONE

1. Assam	74	466
2. Manipur	2	35
3. Mizoram	1	12
4. Tripura	5	77
5. Nagaland	3	35
6. Arunachal Pradesh	1	19
7. Meghalaya	7	55
	93	699
Total : (IV + IVA)	973	5473
Regional Bank (One) New		

tremdendous problems of integration.

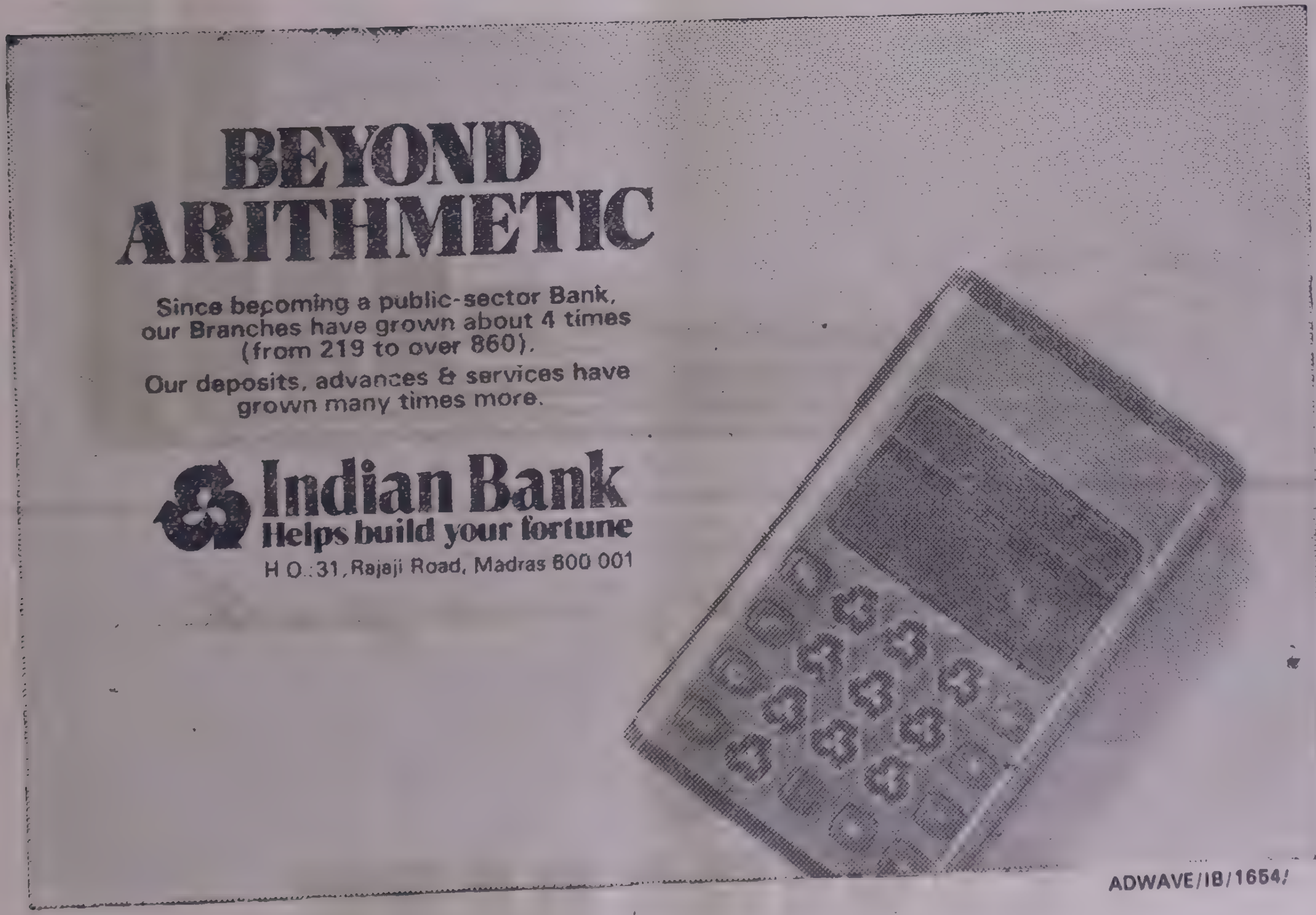
The other alternatives too are not suited to the merger of private sector banks except the one suggested by Saraiya Commission that of having SBI and 2-3 national banks and 5-6 regional/zonal banks. This alternative can be slightly modified to the extent that the private sector banks can be merged with the nationalised banks to form the regional/zonal bank and only S. B. I. may be retained as a 'National Bank'. The greatest advantage of this will be that in a district there will be about 2-3 banks only including Regional Rural Banks. This will ensure a healthy competition between these banks in the matter of quality of service rendered and to some extent a realistic pricing of services. Another merit of this reduced number will be that an effective participation at district level coordination committee meetings will be achieved. Presently, a large gathering turn out at these meetings on account of many banks having their branch in each district.

One way of reorganising the banks on a regional/ zonal pattern is given in the table. This regional pattern has been evolved with the premise that banks having their head offices in a particular state and a close network in contiguous states will merge to form a zonal/ regional bank. Thus a balanced picture is likely to emerge when the private sector banks will be included in the proposed regrouping. For example J & K Bank, Laxmi Commercial Bank etc. will be added to Northern Region, Bank of Rajasthan, Hindustan Commercial Bank, Benares State Bank etc. will be added to Central Region and so on.

For the North Eastern region, it would be ideal to set a new bank based in that region. If that is not feasible, then this region should be included in the Eastern Region. Action on the proposed scheme would have to be initiated in a phased manner to ensure a smooth transition. In the first stage the branch licensing policy would have to be modified to restrict the further opening of branches by the banks beyond the respective proposed region although the zonal banks be allowed to have branches in metropolitan cities. The State Bank should be asked to have its branches upto district level only. In the next stage the merger of the private sector banks with the nationalised banks within the proposed region would have to be carried out. The third stage would consist of "Swapping" of branches of the banks which do not fall in the zone by the respective zonal banks. In the final stage merger of all the banks in the zone would be carried out.

DEPOSIT GROWTH RATE HIGHER IN 1980-81

During the financial year 1980-81, accretion to aggregate deposits was substantially larger in both absolute and percentage terms at Rs. 6,088 crores (19.2 per cent), as compared with Rs. 4,743 crores (17.6 per cent) recorded in 1979-80. The expansion in bank credit at Rs. 3,733 crores in 1980-81 was also larger in amount than the increase of Rs. 3,252 crores in 1979-80, but the rate of increase was lower at 17.3 per cent as against 17.8 per cent in the previous year. Food credit dropped by Rs. 324 crores in 1980-81 as compared with the decline of Rs. 110 crores in 1979 80. Non-food credit recorded an increase of Rs. 4,057 crores in 1980-81, which was much larger in absolute terms than the increase of Rs. 3,362 crores in 1979-80, but the rate of increase at 20.9 per cent was the same as in 1979-80. Scheduled commercial banks augmented their investments in Government and other approved securities by Rs. 2,567 crores during the year, as compared with the increase of Rs. 1,515 crores in 1979-80. Their cash in hand and balances with the Reserve Bank rose by Rs. 598 crores, as against a much larger rise of Rs. 1,059 crores in 1979-80. Banks liquidated their borrowings from the Reserve Bank to the extent of Rs. 150 crores, in contrast to an increase of Rs. 193 crores in this item in the previous year.—*Source RBI.*



BEYOND ARITHMETIC

Since becoming a public-sector Bank, our Branches have grown about 4 times (from 219 to over 860).

Our deposits, advances & services have grown many times more.

Indian Bank
Helps build your fortune
H.O.: 31, Rajaji Road, Madras 600 001

ADWAVE/IB/1654/

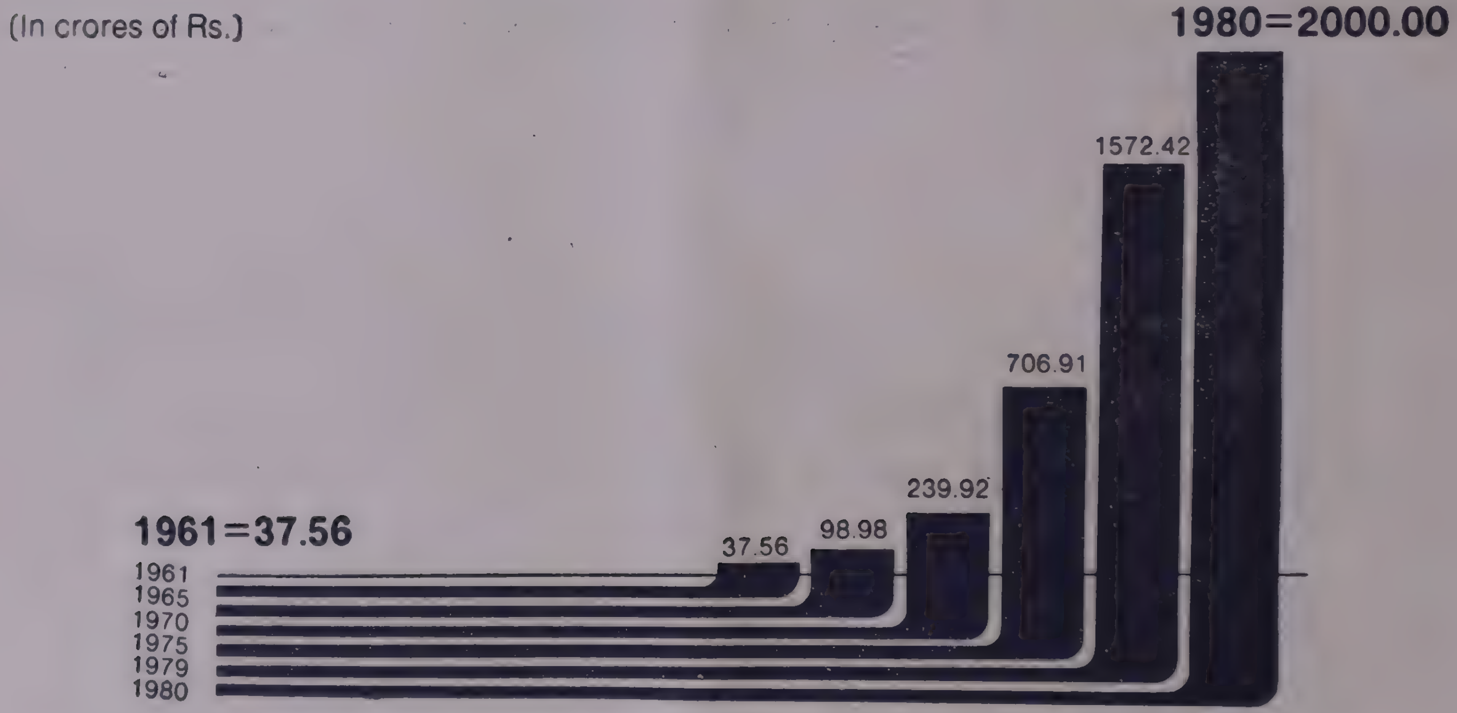
THE BANK THAT SETS THE PACE

YES, Canara Bank has become the pace setter with an exceptional growth rate of **33.50% in 1980—the highest in the banking industry.**

Deposits have doubled every 3 years since nationalisation and have now crossed the Rs. 2000 crore mark.

The Bank now has a clientele of 94.68 lakhs—one of the largest in the industry.

Foreign business turnover scaled a new height of almost Rs. 1,000 crores.



The true measure of service: growth

CANARA BANK

(A nationalised bank)

1906 - 1981 Platinum Jubilee

maa (S) CB 2181

Locational Aspects in Rural Banking

By PRAKASH ADNUR *

RECENT farmers' agitations in the country, especially in Karnataka and Maharashtra, for the abolition of betterment levy, credit write-off, better agricultural commodity pricing and higher agricultural credit have drawn the attention of the Government towards the urgent need for increased rural development programmes. According to the National Council of Applied Economic Research (NCAER) (Report on Credit Requirements for Agriculture, 1974) as much as 70% of the cultivating households borrowed or in other words, depended upon informal sources such as money lenders, traders, commission agents, friends and relatives, for their agricultural needs. The role of cooperatives, however, was significant with 23% of cultivating households depending upon Cooperatives for their agricultural borrowings. But the role of the commercial banks was very limited with as less as 4 per cent of the cultivating households getting agricultural loans from them. The exploitation of poor farmers by the private money lenders, which continues even today, is well known through out the country.

In this context, the role of banking organisations and Institutions such as Reserve Bank of India and nationalised commercial banks and rural cooperative credit institutions such as primary agricultural credit societies has become crucial as they are viewed as the main vehicles of rural financing, rural credit and hence rural development. They are also looked upon as instruments of social justice.

Regional Rural Banks (RRBs) represent a new concept in rural credit, which evolved in the middle of the last decade. These banks are sponsored by a nationalised bank or a State Government with a sole purpose of serving mainly rural poor. Most of their offices (98 per cent in December 1977) are located in rural and semi-urban areas. These banks normally have a compact area of operation comprising one or two districts compatible with compact agricultural regions like command area. The RRBs are supposed to combine themselves with good features of cooperative societies such as acquaintance of the local area, familiarity with rural problems and of commercial banks such as ability to mobilise deposits and access to central money market.

Soon after bank nationalisation in 1969, RBI evolved a Lead Bank Scheme in which districts were allotted to all the nationalised banks. The role of a 'lead bank' was defined as 'coordinating body' coordinating the development activities of all the major banks in its assigned district. Formulation of District Credit Plan in order to meet credit gaps in the productive avenues was identified as a major task for a lead bank. However, as RBI itself admitted in its Press Release of September 11, 1978, the Lead Bank's contribution in extending credit to weaker sections of the society and hence in rural development has been very limited.

Following increased importance on rural development programmes and rural credit in the last two five year plans, RBI gave an emphasis on location of banks in unbanked and rural areas and on reducing population/bank ratio in all the regions in India. This policy has slowly evolved especially since 1969. In 1977, it followed what is known as 4:1:1 policy in which a commercial bank was given license to open one branch in Metropolitan City and one branch in banked centre only if the bank opened 4 branches in unbanked rural centres. In 1978, it formulated a more comphrehensive branch location policy and the broad guidelines which all commercial banks are supposed to follow. They are :

1. In order to reduce the average population per bank office in par with the national average, the bank branches should be opened in deficit rural, semi-urban areas in the next 3–years.

2. Every unbanked community development block head–quarter in the country should have a bank office before June 1979.

3. Establishment of new Regional Rural Banks in the rural areas will be encouraged especially in the districts having weak commercial and cooperative banking structure and they will be given preference in their branch expansion.

4. In areas where no Regional Rural Banks (RRBs) are functioning, preference will be given to lead banks in their lead districts.

5. Banks which have regional character, would not be allowed to open branches in far flung areas but would be asked to concentrate on opening their branches in their own areas of operation.

The policy in regard to branch expansion is, as RBI claimed, to be basically guided by considerations of both the structure of banking system and sectoral deployment of credit.

The number of rural bank offices in 1969 was only 22 per cent of the total but following RBI's drastic policy, the share of rural bank offices is an impressive 46 per cent in March 1980; there has been nearly 8 fold increase in the rural bank offices. Consequently, semi-urban, urban and matropolitan areas have lost their share of bank offices. On an all-India basis, population per bank office has been drastically reduced from 65,000 in 1969 to 20,432 in 1980.

---

* Mr. Prakash Adnur is Research Fellow, Indian Institute of Management, Bangalore-560 027.

This paper is written as a part of the research project 'Locational Efficiency of Rural Service Delivery System' — a project supported (Grant SES 7925069) by National Science Foundation (NSF) of United States. The author expresses his grateful thanks to Dr. V. K. Tewari, Coordinator of the project for his encouragement and guidance in writing this paper.

Remember the date for filing YOUR TAX RETURN

Ordinarily 30th June is the last date for filing Income-tax and Wealth-tax returns. However, persons engaged in business or profession can file their returns before the expiry of four months from the end of the accounting year or 30th JUNE whichever is later. The information in the tax return should be correct & complete and no false claim should be made. Correct form of return should be used, viz :

Form No. 1	For Companies
Form No. 2	For persons engaged in Business or Profession.
Form No. 3	For assessees whose total income does not include income from Business or Profession.
Form No. 3 A	For assessees (including companies) claiming exemption under section 11 of IT Act, 1961.

Return forms can be obtained free of charge from the Income-tax Officer or from the Public Relations Officer in the Office of the Commissioner of Income-tax. Income-tax Return Forms No. 2 and 3 are also available at selected Post Offices for 30 paise each.

Remember to fill up ITNS-224 as an Annexure to the Return. This facilitates expeditious disposal of rectification applications, appeal effects & grant of pending refunds etc.

Tax due on the self-assessment basis after taking credit for pre-paid taxes, should be deposited & counterfoils of advance-tax and self assessment tax paid along with receipts of LIP, CDS and certificates of tax deducted at source should be enclosed with the return.

timely submission of correct & complete return is the best security against tax worries

Director of Inspection
(Research, Statistics, Printing & Public Relations)
Income-tax Department
New Delhi-110001

davp 81/68

Further, geographical accessibility to banks, especially for rural poor has undoubtedly improved. But, to what extent the final social and economic objectives of changed location pattern and rural banking have been achieved? The answer to this question is rather disappointing.

The exact figures indicating proportion of rural poor, i.e., small farmers, marginal farmers, landless labourers etc., who are supposed to have benefitted from the rural banks are not available; but credit and deposit positions in rural and urban areas indicate that rural areas continued to present an adverse picture as compared to the urban areas. For example, agricultural credit, which forms the backbone of rural development and the vital objective of rural banking, has not shown much increase; it is hardly 10.7 per cent of total credit of commercial banks as against the expected 40 per cent in 1975. Ironically, the agriculture sector alone contributes as much as 48 per cent of national income but nearly 80 per cent of the total credit of commercial banks has gone to urban-based industry and trade sectors. The low recovery rate is the main reason given by the bankers as to why they are not advancing expected credit to villagers. A serious question in this context is: If the banks do not have proper operational mechanism to advance and recover the loans from villagers, what are they doing in rural areas?

In spite of the higher share of offices in rural areas, the credit/deposit ratio has almost remained low. But urban and metropolitan areas, in spite of losing their share of offices, have maintained high credit/deposit ratios. Further, though the rural places have 44 per cent of the total bank offices in the country in 1977, they account only 6.5 per cent of total advances by the banks in the country. The major share of country's advance i,e. 80 per cent, is cornered by urban and metropolitan areas which account only 32 per cent of the total bank offices. This means that more and more deposits are collected in rural areas but the loans advanced in rural offices are less as compared to those in urban areas. Therefore, on a national scale, the higher deposits received in rural areas are being siphoned into urban areas. According to this theory, the rural banks are only exploiting rural areas for the benefit of urban areas. This issue needs to be thoroughly investigated.

In the light of above analysis, the rural banking programme needs to be carefully looked into. The present RBI criteria of reduction of population/bank alone is not practical one. Much more directly related factors such as irrigated land, and the actual need and demand factors have to be combinedly taken into consideration in determining the number of banks in rural areas. Further, when the location of a bank is sanctioned in a rural area, the overall impact and implications in that region has to be assessed in the context of existing banking system, and geographical accessibility. At present, each bank license is judged separately without integrated sub-regional and regional locational analysis.

Feasibility surveys and the decision-making process in the location of bank branches has not been scientific. For example, the feasibility surveys by commercial banks† for only selected settlements are taken up, based either on 'first sight' or in the representation of the local people. In this process, more economically and locationally efficient rural centres in a region may not be included. More scientific location analysis techniques‡ such as location-allocation algorithms widely used for facility location in an area should prove very useful.

Another important issue relates to the organisational structure and management of banks in rural areas. Our commercial banks operated by the elite class have proved ineffective in rural places. As the James Raj Committee appointed by RBI in 1977 pointed out, they lack motivation and supervisory and management control. In this context, the Regional Rural Banks with local flavour in their overall operation and management have been highly recommended to serve rural areas. Finally, the overall success of banks in the rural areas depends upon the credibility they establish among the rural poor.

---

†Feasibility Surveys of Syndicate Bank and Tungabhadra Grameena Bank were studied.

‡Hills man E. Heuristic Solutions to Location-Allocation Problems; Monograph No. 7. IOWA, Dept. of Geography University of IOWA 1981.

MASSIVE INCREASE IN FARM CREDIT PLANNED

The Government is giving a great deal of attention for expansion of credit facilities from institutional sources. In the year ending June 1980, the total institutional credit was of the order of Rs. 2,550 crores. Of this, Rs. 1,750 crores were in the form of short-term credit and the balance was medium/long-term investment credit. In the Sixth Plan, it is contemplated that the total volume of institutional credit will be expanded to Rs. 4,000 crores of short-term credit and Rs. 1,415 crores of investment credit in the year 1984-85.

To meet the above objective, action is being taken to expand the role of co-operatives, commercial banks and regional rural banks, which are the main institutions involved in the provision of credit. The co-operative credit system is being strengthened both in terms of financial resources as well as personnel. As regards regional rural banks, their number stood at 70 in June 1980 and would be increased by another 100. The commercial banks have already established a network of over 15,000 rural branches. The loaning operations of these branches coupled with new branches are intended to be expanded. It is expected that in the terminal year of the Sixth Plan, i. e., 1984-85, the total loaning for agriculture by the commercial banking sector will reach a level of Rs. 1,500 crores short-term credit and Rs. 620 crores investment credit. One of the major policy objectives is to increase the share of weaker sections in the quantum of institutional credit advanced.

Central Bank of India

Condensed Balance Sheet as at 31st December, 1980

LIABILITIES	Rs. P.	ASSETS	Rs. P.
1. Capital	4,75,14,600.00	1. Cash	3,09,84,48,310.02
2. Reserve Fund & Other Reserves	17,33,94,069.75	2. Balances with other Banks	33,01,46,573.59
3. Deposits & Other Accounts	27,87,17,35,060.84	3. Money at Call & Short Notice	5,21,25,000.00
4. Borrowings from Other Banks, Agents, etc.	1,08,13,98,283.00	4. Investments	8,88,45,66,187.28
5. Bills Payable	25,88,62,658.55	5. Advances	15,95,61,58,361.72
6. Bills for Collection being Bills Receivable as per contra	1,37,45,98,346.55	6. Bills Receivable being Bills for Collection as per contra	1,37,45,98,346.55
7. Other Liabilities	16,57,51,237.07	7. Constituents' Liabilities for Acceptances, Endorsements & Other Obligations per contra	1,50,45,93,377.60
8. Acceptances, Endorsements & other obligations as per contra	1,50,45,93,377.60	8. Lands & Buildings	3,79,62,993.43
9. Balance to be transferred to the Central Government	20,45,988.57	9. Furniture & Fixtures	10,27,05,351.09
		10. Other Assets	1,13,85,43,095.12
		11. Non-Banking Assets acquired in satisfaction of claims	46,025.53
TOTAL:	32,47,98,93,621.93	TOTAL:	32,47,98,93,621.93

Interpub-81

Commercial Banks and Small Sector Financing: New Horizons Explored

By G. SOMASUNDARAM and C. M. MUNIRAMAPPA *

UNDERTAKINGS having investment in fixed assets in plant and machinery not exceeding Rs 20 lakhs are considered as small scale industrial units. In case of 'Ancillary Industries' investment in fixed assets should not exceed Rupees 25 lakhs. After independence in 1947, the Government of India draw up a plan for the industrialisation of the country in which importance was given for the development of cottage, village and small scale industries. Since then, the development of modern small industries is being attended to with utmost care.

It was stated in the Industrial Policy Resolution of 1956, that "lack of technical and financial assistance, suitable working accommodation and inadequacy of facilities for repairs and maintenance are the serious handicaps of small scale producers..............steps are also being taken to meet shortages.[1] In the industrial policy Resolution of 1977, it was stated that the Central Government will extend 'suitable financial assistance' and 'organisational support' to the state Governments to achieve the objective of small sector development.[2]

From this, it is clear that the approach of the government remains the same for the last three decades and the government is geared up to extend all out financial assistance to the small scale sector. The government intends to achieve this through a net work of commercial Banks spread all over the country apart from a few other lending institutions. All this is being done by the government to stabilise Indian economy and achieve regional distribution of industries. It is also felt that the entrepreneur can have an easy access to the commercial Banks and get financial assistance easily.

In order to help more number of enterpreneurs, the Central government, in its new Industrial Policy in 1977, increased the number of industries reserved for exclusive development in the Small Scale Sector by 324 making a total of 504. The Small Scale Sector is considered to be an important segment of the national industrial sector and is said to be possessing high employment potential and productivity with minimum investment per labourer employed. Thus it is thought at the policy making level of the government that by encouraging small scale sector the problem of unemployment may be solved to a great extent.

The main problem of a small industrialist seems to be that of securing adequate and timely finance. This problem seems to be persisting ever since 1950s as indicated by the Industrial Policy Resolution in 1956. Considering the importance of this sector in the National Economy and the role played by the commercial banks in financing this sector, an attempt is made here to bring to light some of the important financing schemes and the attitude of the commercial banks in small scale sector lending.

Since December 1977, all commercial banks are adopting a need-based approach in extending credit to the Small Scale Sector as per the directions of the Reserve Bank as against the security-based approach existing till then. Accordingly, the commercial banks are granting loans to small scale industrialists based upon the purpose for which the loan is required rather than the securities offered. As a result the importance of security has been reduced considerably. For the purpose of assessing the need the Banker is assisted by technical institutions like Small Industries Service Institute.

The banks are providing working capital finance to small units newly established and medium term loans for expansion and modernisation of the existing ones. This is in addition to the long term financial requirements met by State Financial Corporations, National Small Industries Corporation and others. Even in margins, maximum relaxations are permitted in accordance with the descretionary powers vested with the officers concerned. Generally these margins vary from 5% to 40% depending upon the purpose of the loan and the nature of the security offered. All Loans are advanced by comercial banks to small scale industrial units are protected by the Credit Guarantee Scheme of Reserve Bank.

The following are some of the schemes in vogue with the commercial banks.

Scheme for financing craftsmen and other qualified entrepreneurs : Under this scheme, artisans with practical experience and qualified entrepreneurs with aptitude to set up small scale industries are provided with financial help. The prospective industrialist has to submit his proposals to the commercial bank from which he requires financial assistance to put his unit on ground. The bank on examining the proposals will sanction loan upto Rs. 15,000 depending upon the entrepreneurs need and his ability to repay.

Half a Million Job Programme : Any person unemployed or under employed, educated or uneducated can be benefited by this scheme. Priority is given to small scale industries which are labour oriented and productive. This is a scheme sponsored by the central government in collaboration with commercial banks. Normally, each bank branch is allowed to extend advances under this scheme to persons living within a radius of 15 kms. Engineers and qualified technicians, warwidows etc., categories of individuals or their associations can approach the banks for financial help under this scheme.

---

* Mr. Somasundaram is Teacher-fellow, Department of P.G. Commerce, Manasagangotri, Mysore. Dr. Muniramappa is Reader in Commerce, University of Mysore, Manasagangotri, MYSORE-6.

1. Commerce : Vol. 135, No.3474, Dec. 31, 1977 page 1298.
2. Ibid : Page 1297.

Rural Industries Project Scheme: This is a government of India scheme and operates in selected areas. All small industrialists in the project areas are eligible to a total credit upto Rs. 10,000/-depending upon individual merits of the case.

Differential interest rates: In the second half of 1972, the Government of India introduced a scheme to help socially desirable and economically weaker sections of the community. Under this scheme, amounts are lent by the commercial banks at an interest rate of 4 per cent to selected low income groups for productive purposes.

Central grant or subsidy scheme: This scheme was sponsored in 1971 by the Central Government and is called as 'the 10 per cent central outright grant or subsidy scheme 1971, for Industrial Units to be set up in selected Backward District/Areas'. It has come into effect from August 26, 1971. Under this scheme, subsidy is granted to the new and to the existing industrial units for 'Substantial expansion'. This amount will be equal to one tenth of the fixed capital invested.

The loans and advances sanctioned to craftsmen and other qualified entrepreneurs, as at the end of December 1976 amounted to Rs. 82.2 crores. The average amount of limit sanctioned per entrepreneur has come down from Rs. 24,315 in December 1975 to Rs. 13,032 in December 1976, indicating a wider disbursal of credit to smaller entrepreneurs. Though there seems to be a wider distribution of credit in 1976 the share of small scale sector in Gross Bank Credit seems to be not encouraging in the following years.

Gross Bank credit amounted to Rs. 13,607 crores in 1976-77 Rs. 15,960 crores in 1977-78 and Rs. 19,343 crores in 1978-79. Of the total the share of priority sector amounted to Rs. 3,486 crores in 1976-77, Rs. 4,334 crores in 1977-78 and Rs. 5,677 crores in 1978-79 which accounts for Rupees 25.62, 27.16 and 29.35 per cent respectively. This shows a gradual increase in the share of priority sector out of total Bank credit. However, the total sanctions to the priority sector has not even reached a total 30 per cent. Unless there is a reorientation in the flow of bank credit the priority sectors may not progress as per plans.

Of the total priority sectors' share, the share of small scale sector is Rs. 1,460 crores in 1976-77, Rs. 1,756 crores in 1977-78 and Rs. 2,252 crores in 1978-79. This accounts to 41.88 per cent, 40.54 per cent and 39.67 per cent respectively. From this, it can be observed that though there is increase in the total allocations to the small sector, the percentage share of this sector is significantly declining. One may say that the share of small sector in gross bank credit is increasing. This increase is very insignificant, (0.27 per cent in 1977-78 over 1976-77 and 0.64 per cent in 1978-79 over 1977-78) and so, is negligible.

This steady decline in the small sector's share of priority sector's total credit may be interpreted as due to the commercial bank's negative attitude towards this sector. This is not a happy trend. In fact, the share of the small sector should have been more as more funds are defused into priority sector. This decline is being noticed inspite of the various special schemes formulated and implemented by the commercial banks as per government policies. It is feared that if the same trend continues, in the long run the small sector may lose its due share.

A number of reasons can be cited for this sort of attitude on the part of commercial banks. Important amongst them are the following:

Firstly, the volume of defaults in small scale sector seems to be considerable. As the banker is the custodian of public money, he should always look to the safety of the funds.

Secondly, the rate of interest paid by the small sector is less and is in accordance with the directions of the Government. For example, the small industrialist pays only 9 per cent to 12 per cent interest on borrowing when compared to 16 per cent to 18 per cent paid by others. When the amount of work involved is the same, nothing prevents the banker from concentrating all his energies on lending to sectors likely to fetch him more income. He may show interest in financing small scale sector only to fulfill an obligation. Even here, he may have his own preferences, especially when he has a list of priority sectors. In the process, the small scale sector may be neglected.

Thirdly, the personal approach of the individual bankers to this problem also matters much. The discretionary powers vested with the bank managers may not be the same in all commercial banks.

Fourthly, the security offered by the small entrepreneurs is negligible and the banker is not allowed to take legal action on defaulters without observing statutory formalities. This blocks the bank's capital and reduces the earning capacity of the institution.

No one can dispute the need for the banker to safeguard his position. But it should also be borne in mind that the banker has social responsibility. In the process, he must be prepared to face some risk. The risk could be minimised by careful selection of borrowers. Even this is insured against by the Government through various measures like credit guarantee scheme. So, there seems to be no possibility of the banker losing his money.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription:
Rs. 50 : Single Copy Rs. 2-25

RBI STUDY

Role of Institutions in Financing Retailers, Transport Operators

PREDOMINANT role of institutional agencies in financing small retail traders and transport operations; transport operators plying hand-drawn vehicles (including cycle rickshaw) emerging as a prominent group among the beneficiaries of institutional credit; absorption of the bulk of institutional credit by the proportionately small number of units at the 'top' in the case of both traders and transporst operators; dependence of wholesale traders and large retailers on non-institutional credit agencies for the bulk of their borrowings; general trend of a decline in the gross trade margin realised, with the increase in size of operations, both among retail and wholesale traders; relatively low investment in fixed assets as also marginal gross fixed assets formation in the case of retail traders. These are some of the interesting findings of a country-wide sample survey of 8,788 retail traders 3,269 wholesale traders and 6,129 transport operaters assisted by commercial banks, conducted by the Reserve Bank during 1979-80 (October–June). The salient results emanating from the survey are summarised below :

Retail Traders : About 87 per cent of the assisted retail traders were proprietary units, the rest being mostly partnership concerns. Grain/grocery stores and textiles (non-readymade) together accounted for about one third of the total number of assisted units. About 31 per cent of the units were located in rural areas, 40 per cent in semi-urban areas, and 29 per cent in urban and metropolitan areas. The average annual sales per unit amounted to Rs. 1.8 lakhs. About 14 per cent of the units had annual sales less than Rs. 10,000, 42 per cent between Rs. 10,000–Rs.50,000, 18 per cent between Rs. 50,000 and Rs. 1 lakh, 19 per cent between Rs. 1 lakh – Rs. 5 lakhs and 7 per cent exceeding Rs. 5 lakhs. The gross trade margins realised were less than 10 per cent for 31 per cent of the units, 10–20 per cent for 43 per cent of the units and more than 20 per cent for 26 per cent of the units. The proportion of traders reporting relatively high gross trade margin of 15 per cent or above declined with the increase in the size of annual sales.

The amount of loans taken by retail traders outstanding as at the end of the reference year averaged Rs. 14,973 per unit. Institutional agencies had supplied 52 per cent of the total outstanding loans; their share in the total was more than 90 per cent for units with annual sales less than Rs. 20,000, 75-80 per cent for units with sales ranging from Rs. 20,000 to Rs. 1 lakh and 40–45 per cent for big units with sales above Rs. 5 lakhs.

The oustanding loans from institutional agencies reported by about two-thirds of the units were for relatively small amounts of less than Rs. 5,000. Loans of size between Rs. 5,000 and Rs. 10,000 from institutional agencies were reported by roughly one out of ten units. At the other end of the scale, only one per cent of the total number of units reported loans of size exceeding Rs. one lakh from institutional agencies, but these units absorbed as much as 31 per cent of the total institutional credit. The classification by annual sales showed that units with annual sales exceeding Rs. one lakh, which numbered roughly one in four, shared among themselves about 75 per cent of the total institutional credit. Only 17 per cent of the units in the assisted sector availed of loans from non-institutional agencies. The proportion of units reporting non-institutional loans and the proportion of outstanding loans financed by non-institutional agencies increased with the size of the units as measured by annual sales.

While only about nine per cent of units with annual sales upto Rs. 50,000 reported non-institutional loans, as against 65 per cent of the units with sales above Rs. 10 lakhs reporting such loans; non-institutional agencies accounted for 17 per cent and 58 per cent of the total outstanding loans, respectively, in the two categories. Thus, although the larger units absorbed a relatively large share of institutional loans, their reliance on non-institutional loans was also substantial.

Wholesale Traders: Among the assisted wholesalers, partnership units accounted for 75 per cent of the total and proprietary units constituted 23 per cent, while the rest were organised as companies, co-operatives, etc. Wholesale traders dealing mainly in cereals and pulses, foodstuffs other than cereals and pulses, textiles and textiles products, and medicines and chemicals together accounted for about 57 per cent of the total. The large majority of wholesale traders—about 70 per cent of the total—were located in urban and metropolitan areas. Only five per cent operated from rural areas, while another 25 per cent were located in semi-urban areas.

The average annual sales of the assisted units amounted to Rs. 36 lakhs. Around three per cent of the units reported annual sales of less than Rs. one lakh each, while nearly 20 per cent of the units were in the annual sales range of Rs. 1 lakh to Rs. 5 lakhs. About 15 per cent of the units had annual sales of between Rs. 5 lakhs and Rs. 10 lakhs, while another 45 per cent had annual sales in the range of Rs. 10 lakhs – Rs. 50 lakhs. The annual sales of the rest of the units were above Rs. 50 lakhs each.

The gross trade margins were less than 5 per cent for about 40 per cent of the units, between five and ten per cent for 34 per cent of the units and over 10 per cent for the rest of the units. Thus, about three-fourths of the units reported that the trade margins realised by them were less than 10 per cent. The proportion of units reported gross trade margins exceeding 10 per cent declined with the increase in the value of annual sales.

About 74 per cent of the units reported owned fixed assets. The average written down values of owned fixed assets as at the end of the reference period was Rs. 27,160 per unit. About 21 per cent of the units reported increase in gross fixed assets during the year. Gross fixed assets formation per unit during the year was Rs. 4,252.

The average outstandings on loans borrowed by wholesalers amounted to Rs. 2.6 lakhs. About 37 per cent of this amount was owed to institutional agencies. The size of loans outstanding to institutional agencies was less than Rs. 50,000 each in the case of almost 40 per cent of the units, while about 22 per cent of the units reported institutional loans of size above Rs. one lakh each. The share of large sized loans of over Rs. one lakh each in total institutional credit was 82 per cent.

The distribution of institutional credit among different size classes shows that units with annual sales upto Rs. 20 lakhs each (constituting 57 per cent of the total number of assisted units) shared about 23 per cent of the institutional loans, while the share of units in the annual sales range of Rs. 20 lakhs Rs. 1 crore (36 per cent of the assisted units) was 41 per cent. The remaining assisted units (slightly less than 8 per cent in number) each with annual sales exceeding Rs. 1 crore owed 36 per cent of the total institutional loans. In the overall picture, 64 per cent of the units reported non-institutional loans, these loans accounting for about 63 per cent of the total outstanding loans.

The proportion of units indebted to non-institutional agencies increased with the increase in size of annual sales. The share of non-institutional agencies in total outstanding loans was between 60 and 75 per cent in all the size classes, barring those at the two ends of the scale, viz., (1) units with annual sales upto Rs. one lakh (2) units with annual sale above Rs. one crore; in both the exceptional cases the share of such loans in total outstanding loans was around 55 per cent.

Transport Operators: Most of the assisted transport operators were organised as proprietory units. 95 per cent of the units were single-vehicle operators. Transport operators plying hand-drawn vehicles (including cycle rickshaw) constituted the most prominent group, accounting for 40 per cent of the total number of units. About 28 per cent of the units were engaged in passenger transport by motor vehicles; one in seven of them was a bus operator and the remaining plied other motor vehicles such as tourist coaches and taxis. Units engaged in freight transport by motor vehicles numbered 25 per cent of the total. The rest of the units were engaged in other of transport. About 16 per cent of the units were located in rural areas, 40 per cent in semi-urban areas, 31 per cent in urban areas and the rest in metropolitan centres.

The average annual gross earnings for all assisted units put together amounted to Rs. 63,300 per unit. The average was the highest at Rs. 2.2 lakhs for units engaged in passenger transport by bus, followed by Rs. 1.8 lakhs for freight transport operators. It was Rs. 33,132 for operators who plied motor vehicles other than buses for passenger transport, and lowest at Rs. 3,345 for units operating with hand-drawn vehicles (including cycle ricshaw). About 54 per cent of the units had annual gross earnings of less than Rs. 10,000, 22 per cent had earnings in the range of Rs. 10,000-Rs. 50,000 and 7 per cent in range of Rs. 50,000 – Rs. 1 lakh. Each of the remaining units had gross earnings above Rs. one lakh.

The average written down value of owned fixed assets as at the end of the reference period amounted to Rs. 35.389 per unit. It exceeded Rs. one lakh per unit in the case of transport operators engaged in passenger transport by bus and freight transport by motor vehicles. Gross fixed assets formation during the reference period amounted to Rs. 6.407 per unit.

The outstanding loans of transport operators averaged Rs. 20,457 per unit. Institutional agencies contributed 88 per cent of this total, 94 per cent of the units being indebted to institutional agencies. Loans from institutional agencies were for amounts of less than Rs. 50,000 each in the case of 80 per cent of the units, the share of such units in totat institutional loans being about 33 per cent. Another 11 per cent of the units reported institutional loans of size between Rs. 50,000 and Rs. one lakh and they accounted for 43 per cent of the total institutional loans. Units with loans of size exceeding Rs. one lakh each from institutional agencies numbered about three per cent of the total, but their share in the total institutional loan amount was about 25 per cent.

The relatively larger units each with gross earnings of Rs. one lakh or more which numbered roughly one in six, owed slightly over half the outstanding institutional loans. These units had also absorbed the bulk (about 71 per cent) of the loans advanced by non-institutional agencies which, however, had financed only about 15 per cent of the units. Outstanding loans from them accounted for only about five to ten per cent of the total outstanding loans of units in the different gross earnings brackets, barring the above Rs. 2 lakhs brackets, in which their share was 28 per cent of the total.

About 35 per cent of the units reported having paid employees; the average number of paid employees was six in units operating 'Passenger transport by bus' and three in units in 'Freight transport' business using motor vehicles. Other categories of transport opertors by and large did not have any paid employee. The annual salary, etc. paid per employee was Rs. 4,467.

GRINDLAYS BANK HAS NEW G. M.

Mr. Ray Barnes has taken over as General Manager for Nothern India of Grindlays Bank, from George Cunningham who returns to the Bank's Head Office in London after four years in India. Ray Barnes is a Chartered Accountant and has worked with Hambros and IBM befor joining Grindlays Head Office in London. He was until recently, Assistant Director, Corporate Banking in London.

BANK RESULTS — 1980*

Profitability Maintained Despite Deposit Slow-Down, Cost-Push and Credit Curbs

DESPITE inflationary conditions prevailing in the country and the resultant erosion in the savings of the public, as reflected in the deceleration in deposit-growth in the nation's banking system, most leading public sector banks improved upon their deposit-mobilisation last year and showed higher-than-average rates of deposit-growth in 1980. Due to the credit restraint, the growth rate of advances of some banks slowed down in 1980 although many leading banks showed rates of credit growth which were higher than the national average. What is noteworthy is the fact that, despite cost-escalation and commitment to pay higher wages and bonus to staff, the net profit of most banks were higher than in the previous year. Following is a survey of the performance of some of the leading banks in the country.

BANK OF BARODA

Capital-Base Widened, Net Profit up

THE deposits of Bank of Baroda which has risen to number one position among the nationalised banks in terms of deposits, showed a higher rate of growth in 1980. The bank's global deposits rose by Rs. 576 crores to reach Rs. 3,026 crores, thus registering a growth rate of 23.5 per cent against 21.8 per cent in 1979. The bank's advances rose by 16.9 per cent to reach Rs. 1,670 crores. BOB's priority sector advances reached Rs. 506 crores thus constituting 37.3 per cent of its total advances. The Bank is well poised to achive the stipulated 40 per cent (for priority sector advances) by 1985. The bank's branches stood at 1,550 at the end of 1980. This included 58 overseas branches. The Bank's profit amounted to Rs. 5.91 crores, compared to Rs. 4.30 crores in 1979. With the addition of Rs. 3.20 crores from declared profits and Rs. 1.10 crores from the contingencies, the bank's reserves have gone up to Rs. 15.75 crores, apart from Rs. 1.50 crores, also transferred from capital reserve account to the Reserve fund. With these additions, the total owned funds of the bank have gone up to Rs. 23.50 crores. The Bank's proposal to increase the paid up capital to Rs. 10 crores has been approved by the Government. The Bank has been liberal in providing export finance, which stood at nearly Rs. 100 crores. It has also been active in merchant banking.

BANK OF INDIA

Impressive Growth in Priority Lending

THE deposits of Bank of India increased by 21.9 per cent against the national average of 15 per cent. Its deposits rose from Rs. 2,427 crores in 1979 to Rs. 2,958 crores in 1980. The bank's advances rose by 20.5 per cent against 13 per cent for the country's banking system. They increased from Rs. 1,480 crores to Rs. 1,784 crores. Advances to priority sectors increased by Rs. 122 crores to reach Rs. 499 crores. Its DIR advances rose by 49 per cent to reach the stipulated norm of one per cent of total credit. The Banks' net profit increased marginally from Rs. 4.10 crores to Rs. 4.12 crores. The Bank opened 100 branches in India in 1980, raising the total number of its branches to 1,385. The bank has 26 offices abroad.

PUNJAB NATIONAL BANK

Spurt in Priority Sector Credit, Export Finance

AN impressive growth in deposits marked the working of Punjab National Bank in 1980. The bank's deposits, at Rs. 2,765 crores, registered an increase of nearly 28 per cent against the average of only 15 per cent for the banking system, during the calender year 1980. The bank's advances rose by 25 per cent to reach Rs. 1,535 crores. Of this, priority sector advances constituted Rs. 549 crores. Within the priority sector, advances to agriculture showed a marked increase from Rs. 161 crores to Rs. 231 crores. Similarly, advances to small scale sector rose to Rs. 240 crores. The Bank's DIR advances improved from Rs. 12.3 crores to Rs. 16.8 crores. Its export finance increased from Rs. 214 crores to Rs. 235 crores. The bank's net profit improved from Rs. 3.50 crores in 1979 to Rs. 4 crores in 1980. At the end of the year, the bank's branches stood at 1677 in India.

CENTRAL BANK OF INDIA

Higher Profit Despite Many Constraints

RECORD branch expansion, numbering 258 new offices, was a highlight of the performance of Central Bank of India which, in terms of the number of branches, still holds the top position among the nationalised banks. At the close of the year, the bank had 1,974 branches and by now, it will have come close to the magic figure of 2,000. At 19.8 per cent, the bank's deposit-growth rate is good. Its deposits rose from Rs. 2,092 crores to Rs. 2,506 crores. Including the deposits of overseas branches, the bank's deposits stood at Rs. 2,786 crores at the end of 1980. The bank's credit increased from Rs. 1,353 crores to Rs. 1,563 crores, at a lower credit-deposit ratio of 62.4 per cent. The priority sector credit stood at Rs. 538 crores, against Rs. 409 crores at the end of 1979. The bank's priority sector credit has come close to 35 per cent of its total credit. Agricultural loans constituted almost 50 per cent of the bank's total priority sector lending. The Bank has also exceeded the DIR loan target of one per cent. The bank has sponsored 10 regional rural banks which mobilised deposits of the order of Rs. 18.24 crores. Abroad, the bank issued deferred payments guarantees totalling $ 5.2 million and sanctioned term loans of $ 5.6 million. Despite the squeeze on its earnings, the bank's profit rose from Rs. 3.36 crores to Rs. 3.60 crores.

---

* We have published here the results of the banks which have sent their annual reports or write-ups about their performance More will be published as and when we receive them. The 1980 results of Canara Bank and State Bank of India have been highlighted in the issues dated May 15 and July 1 respectively.

BANK OF MAHARASHTRA

500 Branches in one Single State

DURING 1980, the Bank of Maharashtra achieved the distinction of being the first nationalised bank to have more than 500 branches in one single state. Its branches in Maharashtra numbered 525 at the end of 1980. The bank had 714 branches by December-end. The bank's deposits increased by Rs. 141 crores to reach Rs. 832 crores in 1980, thus showing a growth rate of 21.35 per cent. The bank's total advances rose from Rs. 419 crores to Rs. 472 crores. Of this, the priority sector advances (including exports) amounted to Rs. 203 crores. Even excluding exports, the ratio of priority sector advances of the Bank to total advances stood at 43.40 per cent, against the national average of 36 per cent. The credit extended by the Bank under the DIR scheme totalled Rs. 3.23 crores. The export credit of the bank grew by 13.62 per cent to reach Rs. 23.77 crores. The improvement in the bank's profitability is reflected in the rise in its profit from Rs. 60.32 lakhs to Rs. 1.13 crores.

UNION BANK OF INDIA

Further Enlargement of Deposit-Base

THE deposit base of the Union Bank of India has been enlarged from Rs. 1,206 crores to Rs. 1,437 crores. This works out to a growth rate of 19.2 per cent. The bank's credit expanded by 11.7 per cent to reach Rs. 797 crores at the end of 1980. Of this, priority sector lending amounted to Rs. 279 crores. The share of the bank's priority sector credit to net bank credit stood at 35.5 per cent. Its agricultural credit was biased in favour of small and marginal farmers who accounted for over 65 per cent of direct borrowal accounts. Ten per cent of the Bank's net credit, at Rs. 81 crores, went to export financing. The bank's net profit works out to Rs. 2.20 crores, againt Rs. 1.91 crores in the previous year. With the opening of 54 branches in 1980, the total number of the bank's branches has gone up to 1,171.

INDIAN OVERSEAS BANK

High Growth Rates in Deposits, Advances

THE global deposits of Indian Overseas Bank rose from Rs. 1,153 crores to Rs. 1,486 crores, showing a rise of 27 per cent. Its global advances went up from Rs. 727 crores to Rs. 975 crores, showing a growth of 34 per cent. The bank's priority sector advances, which stood at Rs. 180 crores in 1979, increased to Rs. 231 crores in 1980. The ratio of priority sector advances to total credit stood at 34.6 per cent. The share of the bank's agricultural credit to total credit went up from 14.5 per cent to 16.6 per cent. Loans extended under DIR exceeded the one per cent norm to reach Rs. 5.68 crores. The global operations of the bank resulted in an all-time high profit of Rs. 4.46 crores. The bank's capital-base remains enlarged at Rs. 10 crores. Its reserves have risen from Rs. 6.7 crores to Rs. 7.7 crores. With the opening of 64 branches in 1980, the total number of IOB's branches stood at 808 at the end of 1980. The staff strength of the bank stood at 17,405.

SYNDICATE BANK

Emphasis Continues to be on Small Man

SYNDICATE BANK has shown a 29 per cent growth in its deposits which reached Rs. 1, 692 crores at the end of 1980. About 80 per cent of the bank's deposit accounts are in the size group of less than Rs.1,500 per account. The credit extended by the bank stood at Rs. 1,070 crores, showing an increase of Rs. 251 crores, forming 37 per cent of the total credit. The industrial advances of the bank add up to Rs. 411 crores. The bank's agricultural advances stood at Rs. 122 crores which constituted 12.3 per cent of its total advances. Advances to small scale industries rose by 16 per cent to reach Rs. 116 crores. The bank's outstanding export credit stood at Rs. 60.53 crores, representing an increase of 12.3 per cent over 1979.

In 1980, the London branch of the bank made an issue of floating rate certificates of deposit to the extent of $ 15 million. The amount is being used to assist overseas projects launched by Indian firms. The deposits mobilised by the regional rural banks sponsored by Syndicate Bank stood at Rs. 23.74 crores. The credit extended by them stood higher, at Rs. 35.36 crores. The bank had 1, 118 branches at the end of 1980. The bank's profit, after providing for bonus, stood at Rs. 1.50 crores, against Rs. 1.27 crores in 1979. The bank's capital has been raised to the level of Rs. 5 crores. Its reserves stand at Rs.7.50 crores.

INDIAN BANK

Significant Strides in Offshore Banking

THE deposits of Indian Bank grew by 18.8 per cent to reach Rs. 1,164 crores in 1980. Significantly, 89 per cent of the deposit accounts of the bank were of the size of less than Rs. 5,000. During the year, the bank's credit increased by 15.4 per cent to Rs. 681.9 crores which is slightly less than the rate of increase recorded in 1979. Much of the credit of the bank went to small borrowers, as can be seen from the fact that 94 per cent of the borrowal accounts had outstanding balances of less than Rs. 10,000. The bank's priority sector credit increased by 20.5 per cent to reach Rs. 185 crores. This formed 32.1 per cent of the bank's total credit. Indian Bank is participating, on a constortium basis, in financing the Tamil Nadu Tea Plantation Corporation set up for the purpose of rehabilitating the repatriates from Sri Lanka. The bank has sanctioned a term loan of Rs. 3.3 crores under the project. The bank earned a gross profit of Rs. 1.6 crores.

The branch of the Bank at Singapore undertook both off-shore and on-shore banking activities. Another foreign branch of the bank in Colombo and in addition a Foreign Currency Banking Unit (FCBU) are doing off-shore banking. The FCBU at Colombo was inaugurated on May 13, 1980. It acceps deposits in designated foreign currencies from all non-residents including those in the Free Trade Zone and extends loans to units and firms similarly located abroad. It participates in the syndication of international loans to major companies and also associates as a participant in the issue of bonds by a consortium of banks and other financial institutions. The bank has the distinction of sponsoring and establishing, on October 23, 1980, a Deposit Taking Company named the IBU International Finance Limited in Hong Kong in equal partnership with Bank of Baroda and Union Bank of India, with a capital base of HK $ 30 million.

GRINDLAYS BANK

Global Operations show Profit-Squeeze

GRINDLAYS Bank Limited of U. K. has substantial presence in India. The group profit for 1980 (before tax) stood at £ 34.8 million compared to £ 37.3 million in 1979. As the Bank's Chairman, Mr. N. J. Robson, points out, although the profits are lower, in terms of the sterling, the results reflect an improvement if one takes into account the adverse currency fluctuations and the narrowing of the margin. The bank's deposits increased from £ 3,195 million in 1979 to £ 3,630 million. Its advances rose from £ 1,835 million to £ 1,992 million. These figures reveal growth rates of 14 per cent for deposits and 9 per cent for advances. The directors' report notes that earnings from India improved as a result of increased business. In Sri Lanka, where the bank celebrated its centenary in January 1981 and in Bangladesh, the bank's branches reported good results. Thanks to the close cooperation among the bank's London, Hong Kong, New York and Bahrain offices, it has been possible to arrange a number of syndicated loans. The bank also successfully managed a number of new issues on the Euro-capital markets. Assisted by ECGD of U K., the bank has been able to provide export finance to a larger number of British Exporters. In cooperation with the Export Credit Insurance Corporation of Singapore, the bank recorded the first buyer credit transaction for $ 50 million.

STATE BANK ASSOCIATES

SBM Assists Co-operatives in a Big Way

STATE Bank of Mysore registered an impressive growth rate of 24.46 per cent in its deposits. From Rs. 276 crores in 1979, deposits rose to Rs. 343 in 1980. The bank's advances registered a growth of slightly less than 15 per cent. They increased from Rs. 170 crores to Rs. 195 crores. At Rs. 75 88 crores the bank's priority sector advances formed 38.74 per cent of its total advances. SBI retained its pre-eminent position in financing farmers in Karnataka through cooperatives. Its advances through these agencies totalled Rs. 8.57 crores. The bank's Gramodaya project is in operation in 12 selected villages. The bank has exceeded the one per cent norm for DIR loans. At Rs. 2 crores, its DIR advances form 1.2 per cent of its total advances. The bank's export finance totalled Rs. 6.03 crores against Rs. 5.69 crores in the previous year. At Rs. 20.54 lakhs, the bank's profit stood at about the same level as in 1979. At the end of 1980, the number of SBM's branches stood at 379.

SBT's Deposit Growth is Impressive

THE deposits of State Bank of Travancore registered an increase of 24.30 per cent to reach Rs. 423 crores in 1980 despite a slow down in remittances. The bank's advances grew at a slower rate of 11.53 per cent and amounted to Rs. 253 crores at the end of 1980. Nearly 61 per cent of the bank's incremental advances went to priority sectors. These advances totalled Rs. 92.32 crores and formed 36.55 per cent of the bank's credit. Lower level of exports from Kerala resulted in a reduction in the bank's export credit which stood at nearly Rs. 11 crores, against Rs. 20 crores in 1979. At Rs. 2.62 crores, the bank's DIR advances formed 1.16 per cent of its total advances. The bank's profit improved slightly from Rs. 24.88 lakhs to Rs. 24.94 lakhs. Out of its 452 branches, 409 are located in Kerala.

Saurashtra Bank helps Backward Districts

THE State Bank of Saurashtra registered an impressive growth of over 26 per cent in its deposits which stood at Rs. 250.40 crores, compared to Rs. 198.08 crores in 1979. The bank's advances too rose by 23.51 per cent to reach Rs. 156 crores in 1980. Its priority sector advances rose by 28 per cent to reach Rs. 55.70 crores. Its export credit totalled Rs. 5.13 crores. In its "Gramodaya" villages, the bank disbursed Rs. 14.72 lakhs in 1980. The bank's employment-oriented lending stood at Rs. 38 crores. The bank has launched credit plans for four backward districts of the Saurashtra region. The participating banks are expected to invest Rs. 120 crores in these districts. The bank made a nominal profit of Rs. 7 lakhs. Its branches stood at 230 at the end of 1980.

Patiala Bank Steps up Agricultural Finance

THE deposit-growth rate of the State Bank of Patiala, at 30 per cent, is double the average for all the banks. At the end of 1980, the bank's deposits stood at Rs. 356 crores compared to nearly Rs. 274

crores in 1979. Non-resident deposits of the bank has more than doubled, from Rs. 2.34 crores to Rs. 5.60 crores. The bank's advaces increased from Rs. 207 crores in 1976 to Rs. 223 crores in 1980 Of this, priority sector advances accounted for Rs. 111 crores, forming 47.50 per cent of the bank's total credit. It is well above the stipulated norm of 40 per cent. The bank's advances to agriculture increased from Rs. 52 crores to Rs. 65 crores, registering growth of over 24 per cent. This is in tune with the growing demand for farm loans in Punjab and Haryana where agriculture is passing through a process of modernisation. With the addition of 40 branches in 1980, the total number of the bank's branches has reached 365. In 1980, the bank earned a profit of Rs. 12.50 lakhs.

NEW BANK OF INDIA

Boom in Foreign Exchange Business

New Bank of India has shown impressive results for the year 1980. Its deposits increased by 61.22 crores to 503.28 crores at the end of 1980. Advance went up to Rs. 156.62 crores dering the year. The increase in the prioroty sector advances is of the order of Rs.7.89 crores. They rose from Rs. 71.76 crores to Rs. 79.65 crores. Advances to agricultural sector increased from Rs. 14.77 crores to Rs. 19.52 crores giving a growth of 32.16 per cent. The bank's Village Adoption Scheme was expanded during the year and the total number of adopted villages have now increased to 487. Food Procurement advances during the year increased to an all-time high of Rs. 26 crores. The bank's investment in Government Securities also went up to Rs. 155.02 crores. The turnover of foreign exchange business went up from Rs. 156 crores in 1979 to Rs. 163 crores in 1980. In all, 22 branches of the bank are authorised to handle the financing of foreign trade. With the opening of 22 branches in 1980, the bank had a total of 423 branches.

VYSYA BANK

High Credit Growth Despite Restraint

THE deposits of Vysya Bank Limited registered an impressive growth rate of 26.8 per cent to reach Rs.141.43 crores in 1980. The bank has been able to achieve this through the introduction of attractive schemes like the "Golden Jubilee Cash Certificates". The bank's advances registered a still higher growth rate of 31 per cent. From Rs. 62.17 crores in 1979, its advances rose to R. 81.37 crores during 1980. This is in spite of the fact that the bank had to earmark a substantial portion of its resources to meet the statutory requirements. Another feature of the bank's advances is that the advances of its rural branches increased from Rs. 6.17 crores, to Rs. 9.97 crores. At 67 per cent, the bank's credit-deposit ratio in the rural sector is higher than the norm of 60 per cent prescribed by RBI. The bank's priority sector advance increased from Rs. 17.80 crores to Rs. 24.91 crores. The priority sector's share in total credit has gone up from 28 per cent in 1979 to 31 per cent in 1980. The bank's export credit stood at Rs. 2.46 crores. The bank has earned a net profit of Rs. 11.34 lakhs. Its directors have recommended a dividend of 12 per cent. At the end of 1980, the bank had 228 branches—97 in Andhra Pradesh, 82 in Karnataka and the rest in other states.

KARNATAKA BANK

Impressive Rise in Priority Credit

KARNATAKA Bank has achieved all-round progress in 1980. Its deposits increased from Rs. 104.24 crores in 1979 to Rs. 115.60 crores in 1980. The paid-up capital and reserves, as at the end of 1980, amounted to Rs. 1.08 crores. The total advance amounted to Rs.60.49 crores in 1980 as against Rs. 55.59 crores. The priority sector advances to 33 per cent of total advances as against the RBI stipulation to achieve the target of 40 per cent by 1985. The bank's gross income rose from Rs. 9.51 crores in 1979 to Rs. 11.38 crores in 1980. The net profit was also higher at Rs. 13.60 lakhs in 1980, against Rs. 12.99 lakhs in 1979. A dividend of 12 per cent has been declared for the year 1980. The bank opend 7 branches of which 4 were in rural areas. By opening a branch at Ahmedabad, the Bank Extend its operation to Gujarat too. The total number of its branches were 244 at the end of 1980.

FEDERAL BANK

Marked Increase in Deposits

THE deposits of Federal Bank, Alwaye, increased by Rs. 32.82 crores in 1980 to reach Rs. 157.19 crores. It has been able to achieve this inspite of strained staff relations that prevailed in the earlier part of the year. The bank's advances, which stood at Rs. 87.92 crores, came down to Rs. 84.53 crores in 1980. The bank earned a profit of Rs. 8.46 lakhs during the year. With the opening of 15 branches, the total number of its branches has risen to 302 of which 247 were in Kerala state.

MARKED RISE IN INSURED DEPOSITS

According to the annual Report of the Deposit Insurance and Credit Corporation for 1980, the number of insured banks increased from 1,392 to 1,582, comprising 78 commercial banks, 84 regional rural banks and 1,420 co-operative banks. With the increase in the number of insured banks and the enhancement of the deposit insurance cover per deposit per bank from Rs. 20,000 to Rs. 30,000 with effect from July 1980, the insured deposits of banks went up to Rs. 24,234 crores representing 74.4 per cent of the total assessable deposits of Rs. 32,570 crores as at the beginning of July 1980, from Rs. 18,582 crores representing 69.5 per cent of the total assessable deposits of Rs. 26,743 crores on June 30, 1979. In terms of geographical coverage, the benefit of deposit insurance now stands extended to the entire banking system, leaving uncovered only 93 co-operative banks in States which have yet to pass the necessary legislation. The total advances covered by the three guarantee schemes of the Corporation registered a significant rise from Rs 2,165 crores in June 1979 to Rs. 2,800 crores in June 1980. Advances to farmers accounted for the major portion of the guarantee cover advances (64.2 per cent), followed by advances to transport operators (13.5 per cent), retail traders (11.3 per cent), professionals / self-employed (4.5 per cent) and others (6.5 per cent).

Atlas Copco Takes up new Items

THE sales and profit of Atlas Copco (India) Limited registered a marked improvement in 1980. The company's sales turnover rose to Rs. 18.20 crores in 1980, from Rs. 14.71 crores in 1979. Of this, exports accounted for Rs. 35.28 lakhs. Production of all the items, except couplings, showed an improvement during the year. The pre-tax profit for 1980 stood at Rs. 3.03 crores, against Rs. 2.10 crores in 1979. The after-tax profit amounted to Rs. 1.23 crores, compared to Rs. 89.52 lakhs in the previous year. The equity dividend declared is Rs. 1.20 per share.

The company introduced in the market new items like aqua rigs, wagon drills and pneumatic grinders. It proposes to introduce screw feeds this year. The company has been permitted to manufacture screw compressors, which represent improved technology in the field of compressed air, within the existing licensed capacity.

Telco to Issue Bonus Shares for 11.69 Cr.

IN 1980-81, the Tata Locomotive Company Limited has broken all its previous sales records. The company's sales exceeded Rs. 600 crores to reach Rs. 609.65 crores, compared to Rs. 448.27 crores in 1979-80. The company's total income stood at Rs. 616 crores. The pre-tax profit, which amounted to Rs. 17.62 crores in 1979-80, rose to Rs. 24.37 crores in 1980-81. The after-tax profit also stood at the same level, as there was no tax liability. The company has maintained the equity dividend at Rs. 20 per share. TELCO's exports crossed the Rs. 50-crore mark, making the company the largest engineering goods exporter in India. The company proposes to issue bonus shares in the ratio of 2:5 by capitalising Rs. 11.60 crores from its resesves. The company produced 36,312 TATA commercial vehicles during 1980-81, compared to 29,115 vehicles during 1979 80. This is the highest ever annual produc-achieved by the company.

Mukand Iron To Issue 1-Crore Debentures

Mukand Iron & Steel Works Ltd., Bombay, proposes to raise Rupees one crore by the issue of 1 lakh (13.5 per cent) secured debentures of Rs. 100 each for cash at par on 'Right' basis in the poriion of one debenture for every eight ordinary shares of Rs. 10 each, for meeting the additional working capital requirements of the Company. These debentures will carry interest at the rate of 13 5 per cent per annum payable half yearly. Further, additional interest at the rate of 1 per cent per annum is payable if for the immediate preceding financial year the Company declares dividend exceeding 9.5 per cent on its ordinary shares. The company had declared 12 per cent dividend for the last year and therefore the Debentures will bear interest at the rate of 14.5 per cent per annum from the beginning.

Orissa Cements Records Higher Sales

ORISSA Cements Limited has recorded a sales turnover of Rs. 55.38 crores in 1980, compared to Rs. 47.49 crores in 1979. The profit before taxation, however, declined from Rs. 5.67 crores to Rs. 3.45 crores. The after-tax profit was lower at Rs. 1.29 crores, against Rs. 1.97 crores in 1979. Equity dividend is Rs. 2.50 per share. The quantum of production in 1980 was lower due to the poor quality of coal supplied to the company's plant. Due to the inadequate retention price allowed by the government, the working results of the Cement Division of the company showed a loss—even at 102 per cent capacity utilisation. The performance of the Refractory Division and the Fertilizer Division has been satisfactory. The company is evincing keen interest in R & D. It has helped the Dalmia Institute of Scientific and Industrial Research to develop a process to manufacture magnesite from sea water. The process is being patented in the joint name of the company and the Institute.

Killick Nixon Earns Less on Higher Sales

DURING the year ended November 30, 1980, Killick Nixon Limited recorded a turnover of Rs. 11.40 crores, against Rs. 9.98 crores in the previous year. However, this improvement is not reflected in the company's profit (pre-tax) which declined from Rs. 35.81 lakhs to Rs. 32.21 lakhs. The net profit too declined from Rs. 27.81 lakhs to Rs. 7.21 lakhs. The dividend has been passed over. The company's construction equipment division fared well. Its mini vibrator is expected to be received favourably in the market. It will also be marketing a surface vibrator for lining irrigation canals. Similarly, the sales of the drilling division and the steel division showed improvement. There was also an improvement in the sales of slotted angles. The company, through its Bangalore branch, is taking active interest in the Government's project for opening an inland container depot. The branch will soon have a shipping division. The company's subsidiary, Snowcem India Limited recorded improved sales and profit while the other subsisiediar showed mixed performance.

Higher Turnover by Shalimar Paints

SHALIMAR Paints Limited recorded a higher turnover of Rs. 19.22 crores in 1980, against Rs. 17.01 crores in 1979. This is largely due to higher selling prices. There was, however, a decline in the company's profit, from Rs.1.32 crores to Rs. 1.05 crores, because of cost-escalation. The equity dividend is 15 per cent. There has been some improvement in the company's exports from Rs. 21.98 lakhs to Rs. 32.89 lakhs. The company's turn-key project in Zanzibar for manufacturing paint and varnish is expected to be completed this year. The company's sales have shown an improvement in the first quarter of 1981.

Sylvania & Laxman Record More Sales

THE sales turnover of Sylvania & Laxman Limited showed a growth of over 31 per cent and reached Rs. 15.81 crores during the year ended September 30, 1980. But for the raw material constraints, the turnover would have been still higher. The company's gross profit recorded a rise from Rs. 99.45 lakhs to Rs. 2.06 lakhs. Its net profit stood at Rs. 1.56 crores, compared to Rs. 57 lakhs in the previous year. The company's subsidiaries, Gwalior Lamps and Capital Lighting, are in the process of being wind up. Ajay Electrical Industries Limited, in which Sylvenia & Laxman has a share holding of 28 per cent, is being revived with the assistance of term-lending institutions.

WIMCO Takes up Turn-key Projects

WIMCO Limited has recorded a turnover of Rs. 69.87 crores in 1980 compared to Rs. 60 64 crores in 1979. The company's gross profit has registered an improvement from Rs. 4.86 crores in 1979 to Rs. 5.87 crores. Its net profit improved from Rs. 1.70 crores to Rs. 2.68 crores. The company has stepped up its equity dividend from 14 per cent to 15 per cent.

The company has effected substantial saving in the use of match timber by switching over to cardboard match boxes to the extent of 75 per cent. The high differential in excise duty between matches produced by the company and by the non-mechanised sectors continued to affect adversely its sale in 1980. The total sale, which dropped from 4.410 million boxes in 1978 to 4,040 million boxes in 1979 as a result of the steep increase in excise duty levied in 1979, again fell, albeit marginally, to 3,937 million boxes in 1980. Consequently, the company's market share in the match industry declined further from 25 per cent in 1979 to 23 per cent in 1980.

The company has undertaken the supply and installation of machinery and equipment for the expansion of the Ceylon Match Company Ltd., Sri Lanka. In collaboration with Swedish Match AB, the company is also pursuing its efforts for setting up new match factories on a turnkey basis in neighbouring countries. The company's exports during 1980 was Rs. 3 25 crores, inclusive of the exports directly made by its subsidiary, Sun-Sip Ltd., against exports of Rs. 2.93 crores in 1979. Had it not been for the depression in the international market for marine foods, the company's exports during 1980 would have reached the projected level of Rs. 4 crores.

Hoechst Diversifies Into New Lines

THE turnover of Hoechst Dyes and Chemicals Limited has increased by 16 per cent during 1980, from Rs. 55.50 crores to Rs. 64.51 crores. The pre-tax profit showed a marginal improvement from Rs. 2.49 crores to Rs. 2.54 crores. The after-tax profit stood at Rs. 92.92 lakhs. The equity dividend declared is at Rs. 1.60 per share which works out to 16 per cent, against 15 per cent in 1979. The rise in the turnover was shared by almost all product-groups.

The increase in sales of synthetic resin dispersions is about 22 per cent, dyestuffs 10 per cent, chemicals, including, refrigerants 32 per cent and high density polythylene 13 per cent. The production of synthetic resin dispersions has gone up by 23 per cent. The company has applied for an industrial Licence for the manufacture of certain speciality chemicals. It has recently received a letter of intent for manufacture of some of these chemicals. In the meantime, the company has acquired a plot of land at Ankleshwar in Gujarat, from the Gujarat Industrial Development Corporation.

9 per cent Interim By Indian Oxygen

Indian Oxygen Limited has decided to pay an interim dividend of 9 per cent (amounting to Rs. 0.90 per share and subject to deduction of tax). It is payable on September 1, 1981. The company's overall performance in the first six months of the current financial year (from and October 1, 1980 to March 31, 1981) has shown substantial improvement over that of the corresponding period last year (figures subject to audit). Sales income, at Rs. 35.77 crores, was 25 per cent higher and the profit for the six months (before tax but after providing for depreciation and interest charges) amounted to Rs. 3.74 crores as against Rs. 1.66 crores during the same period last year. The increase in profit was due mainly to higher sales and change in product mix with some improvements in volumes and operating efficiencies. The demand for the company's products continues to be good. It is expected that sales and profit for the second half of the financial year will be maintained at a satisfactory level.

Alembic Chemical Sells More, Earns Less

ALEMBIC Chemical Works Company Limited has recorded a slightly higher turnover of Rs. 36.81 crores in 1980 compared to Rs. 34.79 crores in 1979. However, its profit has shown a sharp decline from Rs. 1.39 crores to Rs. 11.43 lakhs. After providing for taxation, the profit is converted into a loss of Rs. 71.95 lakhs. The loss is explained by the delay in the implementation of the Drug Prices Control Order.

SOUTHERN ECONOMIST

August 1, 1981

CONTENTS

EDITORIAL 1

Not by Ordinances Alone

CURRENT TOPICS 2

Kudremukh : No Buyers yet ; Hospet Steel Project ; Closing Technology Gaps in Air ; Profiteering In Edible Oils

GLASS HOUSE GOSSIP 5

SPECIAL ARTICLES 7

Employment Targets in the Sixth Five Year Plan—An Appraisal
By R. E. Benjamin

The Paradox of Poverty and Longevity—The Kerala Experience
By K. Ramachandran Nair

Control of Monopolistic Trade Practices—Indian Experience
By P. V. Krishna Rao

Rationale of Government Controls vis-a-vis Industrial Expansion in the Private Sector
By Nafees Baig

Use of Tax Incentives to Stimulate Investment
By George F. Kopits

BOOK REVIEWS 25

BANKING WORLD 27

COMPANY NOTES 28

Widia India ; Punjab Tractors ; Travancore Cements ; English Electric ; Garware Paints ; Tata-Yodogawa ; Mangalore Chemicals

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone : 52330

Published on
1st and 15th of every month

Subscription Rates :
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Cope Rs. 2-25

Not By Ordinances Alone

AS a follow-up of the anti-inflation measures, mostly covering the money supply side, announced on July 11, the Government has promulgated another Ordinance arming itself with powers to ban strikes in essential services so defined. This is an enabling measure and does not necessarily mean that the Government will pounce upon a trade union which holds out a strike threat. In a sense, it is an anticipatory—and pre-emptive—measure aimed at dealing with work-stoppages which become inevitable when a continuing double-digit inflation causes a fall in the real earnings of the workers unless the wages are allowed to rise with prices in a regime of indexation. The paradox of the Indian situation is that while the salaries of the Government employees are indexed, those of other categories of workers are not. The only recourse open to them is to resort to collective bargaining, with the blandishment of the strike weapon, where necesssary.

But collective bargaining has not worked well in this country. This can be explained by (a) the absence of sound norms for conceding the demands for wage claims (b) the existence of high wage islands which arouse the envy of others (c) the politicisation of trade union leadership and (d) the multiplicity of unions at the national level, industry level and at the unit level. It may be readily admitted that in such a situation, trade union activity has not best served the interests of the nation. And a major cause of the slow-down in industrial production in many vital areas has been labour indiscipline as manifested in short-sighted tactics like gheraos, work-to-rule and downright violence. Surely, a developing country with a heavy backlog of unemployment can ill afford to let trade unionism go haywire. As the experience of West Bengal and Kerala has shown, trade union militancy often conflicts with considerations of investment growth and employment generation. Where wages tend to be high, the employers are under a compulsion to opt for labour saving technology. Trade union-related violence repels fresh investment.

Whether an omnibus measure like the one promulgated on July 27 provides the right answer to these prickly issues is open to dispute. If it is intended to curb inflation by preventing a rash of irrational wage demands, the intended purpose will hardly be served since organised labour constitutes a very small percentage of the total labour force in the country. But since the vicious circle (of the wage-price spiral) has to be broken at some point, the discipline implied in the Essential Services Maintenance Ordinance can be accepted as the lesser evil provided the measure is meant to be purely temporary. The Polish parallel is not quite relevant to the Indian situation but there is nothing to prevent our trade union organisations from doing what Solidarity did in Poland. If the workers are determined to cause work stoppages, a ban on strikes can prove to be quite ineffective. Mrs. Gandhi should have carefully weighed these considerations before perambulating this freak of a measure through an Ordinance conceived in the dark.

CURRENT TOPICS

Kudremukh Concentrate : No Buyers Yet

THE search for a buyer (or buyers) for the Kudremukh ore concentrate does not seem to have ended yet. Things look as bleak as they were, when the project was completed in August last year. Twelve months is a pretty long period and for a mining undertaking, holding an inventory of mountainous proportions must have posed nightmarish problems. For reasons best known to itself, KIOCL(short for Kudremukh Iron Ore Cympany Limited) has not taken the public into confidence and explained the latest position about the level of production, capacity-utilisation and so on. Probably, the company is reluctant to admit that it is a major public relations lapse. Even at a token rate of 1,000 tonnes of slurry a day, KIOCL would have pumped out 3.65 lakh tonnes during the past 12 months. But since there is no facility at Mangalore, to store such a large quantity, the assumption is that the discharge from Kudremukh has been at a lower rate.

If the Shah had remained at the helm, in Iran, there would have been no problem. The two steel mills which were to have used the concentrate will have been commissioned by now. They would have received the contracted quantity at the agreed rate of 3 million tonnes in the first year, 5 million tonnes in the second year and 7.5 million tonnes annually thereafter during the life of the 25-year agreement. The Khomeini revolution has changed all that. The steel Projects in Iran — one at Ahwaz and another at Bandar Abbas — have not come up on schedule. The war with Iraq has shattered even the slender hope of any major industrial project being set up in the immediate future. The Iranians are finding one execuse after another to abrogate their side of the contract. First, they argued about the capacity of the project, complaining of over-capitalisation. Last week, a spokesman of the Iranian National Steel Company complained that the contracted price of 25 dollars per tonne is higher than the prevailing market price. Further, he complained that while KIOCL reserved the right to sell to any non-Iranian buyer and charge Iran for any difference in price, the contract forbade Iran to sell the product to a third country. Whether Iran will ever buy the Kudremukh concentrate remains a question-mark. The Shah was keen on creating a heavy industry base for his country. The clergy who have replaced the Shah do not show the same enthusiasm for industrialisation. Out of the contracted loan of $ 630 million for the Kudremukh project, the Iranians have, so far, paid $ 255 million. They may be presumed to be prepared to write-off this part of the loan.

With Iran virtually opting out, Kudremukh has become a white elephant for the Indian tax payer. Since closure of the project means a lot of wasted effort, apart from the loss of face it entails, KIOCL is still persisting in its efforts to find buyers. Since the ore concentrate as such does not have a market, except in a country which has surplus gas, the company is planning to set up a 3 million tonne pelletisation plant at Mangalore at a cost of around Rs. 120 crores. Barring a pleasant surprise from Rumania, which has already taken a sample quantity of the concentrate, no buyer is in sight, either for the concentrate or for the pellets that will be available later. The countries which have shown interest but have not put forward any concrete proposal include Nigeria, Indonesia, Japan, Algeria, Malaysia and Bahrain. The simple truth is that steel plants based on direct reduction process cannot be planned and built in a day, in any country.

Setting up a pelletisation plant at Mangalore is itself a leap in the dark, when one considers that there is no immediate prospect of any country importing the Kudremukh pellets. And, supplying these pellets to some other steel plant to be set up within the country would unnecessarily add to the costs. A major criterion for setting up a steel plant anywhere in India has always been the proxmity to iron ore deposits. The purpose of producing the concentrate is to upgrade the ore. This is not necessary in India— at least till the high grade ores are exhausted.

If the Steel Ministry is determined to continue with Kudremukh, they can think more seriously over taking the spong iron route. This is possible only if the oil and gas fields of Bombay High are sufficiently developed to produce enough surplus gas to feed the sponge iron plants that may be set up on the West Coast, in one of the three states— Karnataka, Maharashtra and Gujarat. If and when this materialises, the 120-crores pelletisation plant will become redundant. Either way, the Steel Ministry has to take some hard decisions over the future of KIOCL. One alternative is to "mothball" the entire project for a period of 5 to 10 years. This will save the Government the trouble of finding buyers either for the ore concentrate or for the pellets, on terms which will be probably uneconomic to the country. The other alternative is to keep the project working, tying the concentrate or the pellets produced there to some new steel plant within the country. That involves a compounding of a host of uneconomic and, technologically inadvisable, policy decisions.

New Turn in Hospect Steel Project

THE submission of the revised detailed project report on the Vijayanagar Steel Project by MECON to SAIL and the acceptance of the same by the latter are taken to mean that the Government may, after all, take up the project. But past disappointments should engender caution. Ever since Mrs. Gandhi laid the foundation stone of the project in 1971, not far from the ruins of the forgotten Vijayanagar empire, nothing has come up at the site, except grass and wild shrubs. During the Janata regime, when Mrs. Gandhi was fighting the by-election battle at Chikmagalur, the Janata Industry Minister, Mr. George Fernandes, who was campaigning for his party's candidate, indicated a change of the project site from Vijayanagar to Mangalore. This seemed to have the concurrence of the then Steel Minister, Mr. Biju Patnaik, who was trying to trundle in a steel project, at Paradeep, in his home state, Orissa. Little did Mr. Fernandes realise, at that time, that in taking the stand he did, he was weakening the case for a steel plant both at Vijayanagar and at Mangalore.

Hopes were again revived when, after the Congress (I) victory in 1980, Mr. R. Venkataraman, out of his depth in his new portfolio of finance, disclosed without doing the necessary home work, that he had made a budgetary allocation of Rs. 30 crores for Vijayanagar. Reassured by this, the State Assembly even passed a resolution thanking the Centre for reviving the project which had remained in suspended animation for a decade. But it turned out to be a case of unintentional April-fooling. The budgetary allocation for the project in 1980-81 was Rs. 60 lakhs—not Rs. 30 crores. The Chief Minister, Mr. Gundu Rao, who is more a creature of Mrs. Gandhi than a politician in his own right, could not have possibly put up a fight, to safeguard the state's interests, thereby risking the goodwill of the supreme leader. He too became a convert to the idea of a coast-based steel plant, thus pushing Vijayanagar, an inland site, to a lower priority. Even as late as March 1981, Mangalore was a near-certainty while Vijayanagar remained only a possibility.

To be sure, nothing has happened to turn the tide in favour of the Hospet steel project whose viability however remains above dispute. Starting from a consumption level of 8 million tonnes in 1979-80, the planners projected the demand for steel to go up to 12.9 million tonnes by 1984-85 and to 18.4 million tonnes by the end of the decade. As against this, production of saleable steel in the integrated steel plants stood at around 6 million tonnes in 1979-80. Steel production, including the output of the mini steel plants, is expected to go up from 7.4 million tonnes in 1979-80 to 11.5 million tonnes in 1984-85 and to 17.4 million tonnes in 1989-90.

This increase is expected to be covered largely by the expansion of Bhilai and Bokaro and the construction of the Visakhapatnam Steel plant the first phase of which will be completed by the end of the Sixth Plan. There is no commitment for other new projects in the Sixth Plan, beyond the vague hint that "the construction of a second steel plant in Orissa is also contemplated, if funding arrangements are satisfactorily settled". The schematic allocations, which reflect the intention of the planners, are Rs. 1,050 crores for Visakhapatnam, Rs. 50 crores for Paradeep and Rs. 2 crores for Vijayanagar. This means that, if the last-mentioned project can find a place in the Sixth Plan, it will only be after the completion of the mid-term appraisal. Some Peter has to be robbed to pay Paul.

Take away or add a hundred crores, a steel plant would have cost around Rs. 1,000 if built in the early seventies. Even if it had been taken up in the mid-seventies an integrated steel mill would have been completed with an investment of around Rs. 2,000 crores. And, as MECON's revised DPR shows, a steel plant would now cost around Rs. 3,000 crores, irresspective of the technology one opts for. It is all right for the Finance Minister, Mr. Veerappa Moily, to proclaim in the State Assembly that the 3,000-crore Vijayanagar Plant "has become a reality" but the 3-million tonne project is unlikely to materialise in the late eighties unless a foreign firm— or consortium of firms — comes forward with a long-term credit " package " for Rs. 3,000 crores. That remains a big "if".

What route one can take to produce steel at this project is still being debated. The Lurgi-route, which has the merit of doing away with coking coal— sponge iron made from non-coking coal will be fed into electric arc furnaces— may be favoured since Vijayanagar is far away from Bihar-Bengal coal fields. The other alternative, mentioned by the SAIL Chairman, Mr. K. C. Khanna, is to import coking coal from Mozambique by helping to develop the coal fields there. The Steel Ministry has complusions — other than the non-availability of coking coal in close proximity— to favour the sponge iron route. If it does not find buyers for the Kudremukh concentrates (or pellets that may be produced later), this raw material can be used for making sponge iron at Vijayanagar. Whether MECON's report mentions about this possibility, one is not sure but two factors, namely, the cost of transporting pellets from Mangalore to Vijaynagar and the availability of superior grade ore at the plant site militate against this alternative. If the Ministry settles for the Mozambique coal, then it opens up the possibility of developing the Karwar port and the laying of the railway link between Karwar and Hubli.

Closing Technology Gaps In Air

THANKS to the hawkish policy of the Reagan Administration, the air wings of the defence forces of India and Pakistan are engaged in a competition to acquire the latest among the lethal flying machines. All this started with the acquisition by Pakistan of F-16s. How many of these F-16s will be acquired by Pakistan Air Force remains anybody's guess. What is not denied is that PAF will have them in squadron strength. In addition to F-16s, PAF is reported to be in the process of adding some 3 squadrons of MIG-19s and 2 squadrons of Mirage-5s. In all, Pakistan is said to be in the process of acquiring some 107 French-made jets. This, together with the up-dating of its existing squadrons of Mirages and MIG-19s will add substantially to Pakistan's strike capability.

India's answer to Pakistan's F-16 is Mirage–2000 the purchase of whice is still being negotiated. Very soon, India will also have put together a few squadrons of Jaguars whose performance does not quite equal to that of F–16. It is argued by defence analysts that while Pakistan Air Force will have thoroughly modernised itself in a couple of years, the Indian Air Force will not have completed this process even by mid-80s. How India can face a predatory Pakistani air attack with the available MIG-21s, Maruts (which are becoming obsolete) and Jaguars remains the subject of a heated debate.

One option is for the Government to go in for later versions of the MIG series (e. g. MIG-23s and MIG-25s) which means dovetailing India's strategic needs to Russia's. Yet another alternative is to consider the acquisition of the twin-engined Tornado which will be available at about the same time as Mirage-2000. India could possibly have avoided a scramble of this kind if her defence planners had bestowed serious thought on developing an indigenous model. The failure of the HF-24 project highlights the lack of co-ordination between IAF top brass and HAL. Although the Subramaniam Committee emphasised the need for achieving self-sufficiency in military aircraft, particularly the development of a deep penetration strike aircraft, in the late sixties, nothing was done to mobilise the available designing capabilities until the Jaguar came on the scene. In this strategic area, the failure of our military planners sticks out like a sore thumb.

Profiteering In Edible Oils

THE sharp increase in the customs duty on vegetable oils and "allied products" to 150 per cent *ad valorem* through a presidential ordinance is not likely to bring any relief to the consumer. During the month-end, groundnut oil ruled at Rs. 15.80 per kg. — an unconscionably high price. Today, the State Trading Corporation has a virtual monopoly of the import of both edible and non-edible fats and these imports are allowed at a concessional tariff. The duty hike is intended to partly mop up the adventitous profits made by private traders before the ban on their imports came into effect. The "loss" in foreign exchange on account of the private imports of palm stearin, industrial grade coconut oil, beef tallow and so on is estimated at Rs. 200 crores. Since the domestic prices of these fats are higher than the import prices by a wide margin, the importers can be presumed to have made quick profits on these items. It is also reported that some of these non-edible items, like palm stearin, have found their way into vanaspati factories. The duty hike will affect only that portion of the contracted quantity which has not reached the country's shores yet.

The vanaspati units are also playing a game of hide and seek. The Food Ministry has complained that part of the edible oil supplied to the industry is finding its way into the retail market. This is explained by the price differential. The vanaspati industry purchases the imported oils at around Rs. 7.5 per kg., while the ruling market price for any oil, with one or two exceptions, is above Rs. 15. Since the vanaspati units can get other imported non-edible oils from private sources at a good price, they have no difficulty in selling part of their quotas to the retail market. Besides, with vanaspati prices pegged at a lower level under a voluntary scheme, they can make more money by selling the raw material than by selling the finished product. This also gives a clue to the complaint that there has been a fall in the production of vanaspati in the recent months. Under the circumstances, a fall in the prices of edible oils is possible only if (a) the Government pushes more of imported edible oils into the public distribution system (this is being done) and (b) the domestic production of oil seeds shows an improvement.

Glass House Gossip

MRS. Gandhi revealed a streak of statesmanship recently when she started a dialogue with the leaders of the opposition on the grave threats to the nation's solidarity and security. The threats, needless to say, are both external and internal. They include the possibility of a war with Pakistan, communal clashes in some of our cities, the influx of tribal refugees from Bangladesh and the proselytisation drive launched by a minority community in a Harijan settlement in Tamil Nadu. There are other problems like the Assam agitation, the separatist movement launched by a group of Sikhs and the Naxalite trouble in some pockets in the south.

The extent to which Mrs. Gandhi will secure the cooperation of the opposition parties, in the ultimate analysis, depends on the manner in which her own party men and junior ministers carry on the politics of consensus. Take for instance, the provocative utterances that Mr. Yogendra Makwana has made on the law and order problems in the states ruled by the opposition. Rightly or wrongly, the ruling parties in these states — Kerala and West Bengal to be precise — are apprehensive that the Centre is hell-bent on toppling their Governments and on imposing the President's rule.

If she is keen on making a success of consensus politics — at least on issues that cut accross narrow partisan interests — she should hold the Congress (I) hotheads on a short leash. Mrs. Gandhi herself is in the habit of sniping at the opposition — often without any provocation — whenever she is asked to explain her Government's failure on the economic front or on the law and order front. If reconcilation is what she is after, she will do well to stop looking for scapegoats in the ranks of the opposition. The third point I wish to make is that Mrs. Gandhi should not encourage the defection of individuals from the ranks of the opposition parties. She cannot, in all conscience, continue any meaningful dialogue with the opposition leaders while at the same time trying to weaken the opposition parties by encouraging defections.

A nation which is facing internal as well as external threats can ill afford to waste its energies on political shadow boxing. I am all for evolving a national consensus on, for example, how to meet an external threat or on how to prevent recurrence of communal clashes. The one redeeming feature of Indian politics is that with all its divisiveness, it has witnessed the coming together of disparate parties whenever the nation faced a threat to its survival. In future, whenever Mrs. Gandhi thinks that the situation warrants the declaration of an emergency, she should unhesitatingly declare one, provided she takes the major opposition parties into confidence. I may even go a step further and say that during such periods of crisis, we should have a "national" Government consisting of the major political parties. Any takers for the idea?

□ □ □

AFTER the removal of President Bani-Sadr, the clergy led by Ayatollah Khomeini have moved fast to consolidate their hold on Iran which seems to be fast sliding into a state of near-ananchy. They have managed to have their own man, Ali Rajai, elected as President by an overwhelming majority. I do not think Ali Rajai has any reason to rejoice over his own victory since in Iran, what matters is not the majority vote but the opinion of one person, namely the ayatollah. Only 17 months ago, Bani-Sadr was elected President with a similar massive margin his favour. But little did he realise that it was really a vote for the ayatollah — and not for him. Ali Rajaî, who shares the fanaticism and religious fervour of his mentor, may not suffer the fate that befell Bani-Sadr but he has to tread warily. The mullahs are taking no chances. They already had a foretaste of what may come, in the recent massacre of the faithful, including Ayatollah Beheshti. *The Economist* of London summed up the situation aptly when it said, in its issue dated June 20:

> Ideology and terror can keep an unbalanced Government on its feet for a while. But the elimination of those like Mr. Bani-Sadr brings closer the day when the four horsemen of Iran's apocalypse—the clergy, the army, the militant left and the discontent tribes and nationalities—will pull Iran apart. When the war with Iraq ends, the reorganised, battle-hardened army is likely to turn its attention to the home front; as people become poorer, support for the left is likely to increase and as disenchantment with the central Government grows, so too will secessionism.
>
> On the theory that nothing rallies support to Russia's brand of revolution like a dose of reactionary misgovernment, Mr. Brezhnev has been extending a hand of friendship to the mullahs, offering to sell them arms in their war with Iraq. Russia's Iranian friends in the Tudeh party are taking care to keep on the right side of the mullahs. The tossing out of weak, well-intentioned President Bani-Sadr makes it likelier that the turbulence in Iran will suck in the great powers waiting outside.

The mullahs, I think, have reached the point of no return. I am inclined to agree with *The Economist's* assessment. Sooner or later, the army will have to step in, to restore stability within the country. It will then be a case of the revolution devouring not only its children but its maker.

□ □ □

Kabhi garm—Kabhi narm. That seems to be the attitude of the Congress (I) Governments towards the press. While the Information Minister, Mr. Vasant Sathe, reiterates that the Government is not doing anything to curtail the freedom of the press, the sniping goes on, at the state level. Some months ago, in Karnataka, a group of hooligans, styling themselves to be members of Youth Congress (I), created a scene in front of two newspaper offices in Bangalore. The state's Chief Minister, Mr. R. Gundu Rao, continues to hurl abusive epithets at the world's youngest profession. Money spent by the information department of the Government on advertisements is selectively deployed. The main criterion is whether you have filed an affidavit before a magistrate stating that what you claim about your newspaper is true. Perhaps Karnataka is the only State in the world which calls for an affidavit from newspapers.

In Maharashtra, next door, Antulay (Mr. A. R. Antulay, Chief Minister) has used stronger language to castigate the members of the fourth estate. He called them snakes, scorpions and prostitutes. I do not know about prostitutes but I am sure snakes and scorpions would protest at being bracketed with the wrong species. To counter-act the anti Government slant of newspapers, Antulay is also thinking of publishing a Government-owned daily. Not to be out done by Mr. Antulay, Mr. F. M. Khan wants the newspapers owned by "vested interests" to be taken over by the Government. In Orissa, where arm-twisting is standard practice, the Chief Minister, Mr. J. B. Patnaik, follows a subtle approach to prevent newspapers—and newspapermen—from deviating too much from the official line. He operates through the journalists' unions the needs of which are well looked after. Except for an occasional reporter who chooses to go his own way, the familiar carrot-and-stick policy works in Bhubaneshwar.

□ □ □

THE outcome of the special congress of Polish Communist Party which concluded on July 18 must have caused mild disappointment to the Soviet leaders. Contrary to Brezhnev's hope that hard-liners would be elected to lead the party—and to show Solidarity its place—the party members voted Stanislaw Kania back to the party leadership. And Jaruzelski is re-elected the Prime Minister. By and large, the Party has rejected the hard-liners who would have probably followed a policy of confrontation with the trade union movement, Solidarity. Now that Kania has secured a renewed mandate from his party—in the face of frowns from Brezhnev—he should be able to evolve a *modus vivendi* for working in tandem with Lech Walesa's Solidarity. With the unions affiliated to Solidarity tugging at the leash, even a charismatic leader like Walesa may find it difficult to follow the path of moderation. If the Solidarity again gets into a state of confrontation with the party, then it will drive Kania into the arms of the Russian bear.

Too much freedom is precisely what the Poles cannot afford to have, at this juncture. The Polish economy is in a poor shape, with the national income showing a fall of 15 per cent, a debt of $27 billion awaiting to be re-paid to the Western lenders and the country experiencing a shortage of all varieties of goods. The Poles are in no position to look to Russia for help. Russia, I know, is only too willing to bail the Poles out but not without humiliating the Solidarity. The majority of the Poles may not favour this course. They would rather muddle through than invite the Russians to sort out their problems.

□ □ □

Not long after the Bagmati disaster in which almost a whole train slipped off a bridge and plunged into the river, one reads about another train accident in Gujarat. The death toll in the Delhi-Ahmedabad mail derailment is nowhere near that of the Bagmati disaster but, all the same, it should make the Railway authorities to sit up, think and do something. In this case, sabotage is suspected but the increasing number of accidents on our Railways indicate a steady deterioration in the way they are run in India. Apart from the human failure (fatigue of the drivers and carelessness of pointsmen) several accidents occur because of defective signalling equipment, worn out tracks and obsolete rolling stock. The associations of Railwaymen have not only brought these shortcomings to the notice of the Railway Board but also have complained about them to the International Labour Organisation.

As the former Railway Minister, Mr. Madhu Dandavate pointed out, in Madras, on July 26, the backlog of track renewal, which stood at 5,500 km. in 1978, has now gone up to 6,000 km., representing roughly 10 per cent of the total length of the Railway system. He regretted that the track renewal work has slowed down and that the round-the-clock patrolling which he had introduced in certain sabotage-prone areas has now been given up. Mr. Kedar Pande is faced with the problem of how to reverse the accidents trend.

— **Plebeian**

Employment Targets in the Sixth Five Year Plan — An Appraisal

By **R. E. Benjamin***

The country has an unemployment backlog which is close to 4 crores, not counting the rural poor who suffer disguised unemployment. The Sixth Plan (1980-85) seeks to make a frontal attack on the problem with special emphasis on rural programmes like I R D P. It also accords special priority for employment generation in the small scale and cottage sectors. Yet, there are enormous organisational hurdles which need to be crossed in the process of achieving the Sixth Plan targets. The article analyses these hurdles.

SOMEHOW, at the national level, the Five Year Plans have underplayed the need for linking them with their employment potential. Therefore, notwithstanding the growth rate going up, the problem of unemployment has been assuming gigantic proportions from one plan to another plan. The employment problem "refers to the imbalance between the size and growth of labour force on the one hand and opportunity for economic activity offered by the existing economic structure on the other".[1] The labour force consists of all those who are able and willing to engage in economic activity whether or not they are actually performing it.[2] At the beginning of 1970s, the labour force in India (using the definition of 1961 census) was about 200 millions. This is expected to increase by more than 70 million during the decade. About 50 million of these people will have to earn their livelihood in rural areas and the rest in urban areas. For the sake of simplicity, we assume that economic policy has as its fundamental objective, the improvement of living standards generally and especially those of the poor. Among the many constraints, a critical and relevant one is the growth of the labour force, which over the next two decades at least is almost totally beyond control.

This paper is written in the belief that economic policy in India has given insufficient attention to the absorption and productive utilisation of very large supplies of labour in the country. As a result, production has suffered and a large section of population have stagnated at a miserable level.[3] In India, where only 45 per cent of the total population constituted the total work force, unemployment certainly affects every section of the community. We are now having nearly 4.5 million workers (net) added to the labour force every year, and it is likely to double over the next 15 years.

Magnitude of the Problem

Bhagwati Committee on unemployment (1973) estimated the number of unemployed persons in India in 1971 to be 18.7 million. In the past decade, another 20 million would have been added to this number, bringing the total to 38.7 million. In India, due to the dual nature of the economy, it is possible only to calculate the number of persons who are openly unemployed, i.e., educated persons who are seeking employment through employment exchanges. It is not possible to measure unemployment in the unorganised sector, i. e., small units and production units in the household sector which, according to in Tamil Nadu Economic Census, 1980, number 17.5 lakh units employing 49 lakh workers and agriculture. In both unorganised and agricultural sectors, we have what is called 'disguised' unemployment which is neither easy to measure nor eradicate.[4] Thus, the magnitude of unemployment problem in India is very great.

According to another recent estimate,[5] nearly 18,000 engineers, 1.25 lakh science graduates, 9,000 science post-graduates were unemployed in the country in 1978. By 1983, the corresponding numbers would be 22,000 engineers, 1.67 lakh science graduates, 12,000 science post graduates. This shows not only the number is large, but also there is a clear mismatch between technical education and employment.

Five Year Plans

Before we look at the sectorwise employment targets for the Sixth Plan, it is necessary to know something about the planners policy and performance in regard to employment during the previous five year plans. The policy has been lacking in giving realistic targets for employment-creation in the various sectors. Whatever the targets fixed, the performance has been far behind expectations, with the result that the number of unemployed persons in the country has been steadily increasing. The need for providing gainful employment to people was felt even as early as the first five year plan. Subsequently, though the employment objective was given importance, the planners failed to adopt a suitable employment strategy. They gave importance to heavy industry with high capital intensity assuming that this strategy would generate greater surplus for further investment. This strategy continues even now but with one difference. The planners have lately realised that this strategy is not yielding the right type of development. With unemployment increasing at alarming rates, they have tried to include some special programmes for increasing employment in the various sectors, especially in areas where the potential is existing.

---

* Dr. Benjamin is Lecturer, Department of Economics, Madurai Kamaraj University, Madurai.

After the realisation that more emphasis to employment objective, should be given, the planners have been launching several programmes for creation of more jobs in the rural sector. This has failed to generate adequate employment for the surplus labour. The planners are now finding it difficult to increase the employment opportunities both in manufacturing sector and the agricultural sector. Under the present circumstances, it would not be possible to make any real progress in employment generation unless the government adopts a new strategy completely different from the present one.

VI Five Year Plan

A summary of the draft plan states that in the field of employment, the picture has been far from satisfactory. The number of people unemployed and under employed have risen considerably. Hence two goals have been set:

1. Reducing underemployment by increasing rate of growth of gainfully employed.

2. Reducing unemployment on the basis of usual status, commonly known as 'open unemployment.'

While analysing employment potential of the different sectors, all industries and most of the major infrastructural activities, which have high capital-intensity, are very deficient in terms of employment generation. Major employment generating activities are found in 'agriculture, village and small industries, construction, public administration and other services. The Table-1 gives the estimated figures for employment for various sectors in 1979-80 and 1980-85.

TABLE-1
ESTIMATION OF SECTORAL EMPLOYMENT IN MILLION-STANDARD PERSON YEARS*

		1979-'80	1980-85
1.	Agriculture	72.184	85.237
2.	Forestry and logging	6.207	7.794
3.	Fishing	1.940	2.220
4.	Mining and quarrying	.724	.894
5.	Manufacturing	22.012	27.759
6.	Construction	9.286	11.321
7.	Electricity, gas and water supply	.723	.927
8.	Railways	1.662	1.704
9.	Other transport	7.109	8.677
10.	Communication	.800	.917
11.	Trade, storage and warehouse	13.278	16.640
12.	Bank and Insurance	1.038	1.225
13.	Real Estate and Ownership dwellings	.028	.032
14.	Public Administration, Defence and other services	14.119	16.042
15.	Special programmes for employment generation	—	4.000
	Total	151.110	185.389

* Standard person year, refers to a person working 8 hours a day for 273 days in a year.

Source : Draft Sixth Plan

Employment generation[6] is derived from past performance against growth. Statistically, employment in an activity is related as a non-linear function (double log) of either gross output or value added, and in the case of agriculture, as a fixed coefficient of land, the major input. Then we have to mention two special programmes, i.e., Integrated Rural Development Programme and National Rural Employment Programme. Of the two, the first has specific targets for each year of the Plan period, the second is meant mainly to benefit the rural poor, who have no assets and who need to be provided with wage employment. The operational strategy of IRDP will have the following main elements:

A five-year development profile will be drawn up for each district, dis-aggregated into blocks, based on practical possibilities of development in agriculture and allied sectors. It will particularly deal with optimum development of ground and surface water resources, fuller water utilisation and dairy manurial and fuel resources including bio-gas development. Of approximately 20,000 families in each block, 10,000 or so will be below poverty line. It is proposed under this scheme, to give specific assistance to 3,000 families on an average in each block during VI Plan.

Of the 3,000 families, 2,000 could be covered by schemes falling under agriculture and allied activities, 500, in village and cottage industries and 500 in the services sector. The scale of funding under this programme will be Rs. 5 lakhs per block in 1st year of the plan; Rs. 6 lakhs per block in 2nd year of the plan; Rs. 8 lakhs per block in the last three years of plan.

IRDP is conceived essentially as an anti-poverty programme. It will be implemented through a single agency in each district. A village plan register containing the names of all families identified as the target group will be maintained at the village levet. For the second item, namely, the National Rural Employment Programme, no targets have been fixed. This is intended, as already stated, mainly for the rural poor, who have no assets, to provide wage employment to them during lean agricultural season. This is a centrally sponsored scheme with 50:50 sharing basis between Centre and the States.

Small Scale Industries

Third in the order, comes the promotion of village and small industries which will continue to be an important element in the national development strategy, 'because of its favourable capital output ratio and high employment intesity.' The employment figures for village and small industries in 1979-80 and 1984-85 are given in the Table-2.

Estimation Employment generation

Although the rhetoric of our Five Year Plans contained references to the need for augmenting employment through many specially designed programmes, efforts in this direction were thoroughly half-hearted. The way in which the NREP is spelt out in the Draft VI Plan makes one doubt, whether the planners have thought seriously about the magnitude of the unemployment problem in rural areas. They have failed to specify even the targets.

As regards village and small industries, a publication of the

Khadhi and Village Industries Commission has indicated that production has a distinctly decelarating tendency and this phenomenon appears to be disconcerning from the point of view of creating additional employment. Here, one should note that out of 9 million jobs to be created in the village and small industries sector, about 6.2 million (69 per cent) are to be found in the traditional sector comprising khadi, handlooms, sericulture, handicrafts, coir. This is highly doubtful in view of unsatisfactory past performance.

Dantwala,[7] commenting on rural works programme, in the earlier plans has observed that it has suffered due to lack of competent, non-power seeking rural leadership, red tape, lack of inter-departmental co-ordination, bureaucratic inaptitude, lack of knowledge of local conditions, absence of prior survey and preparatory work. The main reason for failure of SFDA, MFAL is routing them through existing rural institutions which act as instruments in the hands of power groups. A few more reasons for failure are given by Tendulkar.[8] They are: (1) First, the socio-political infeasibility of certain measures in the plan made them effectively non-starters; (2) Even within the socio-political constraints, institutions through which they have to be implemented, seem to favour the dominant interests and are biased against the weaker sections of society.

Against the total number of jobs which is proposed to be created in the organised sector plus agriculture during the five years is 34.279 millions for this purpose the economy is divided into 14 sub–sectors plus agriculture. Three sectors, namely agriculture, construction, public administration and other services alone are supposed to provide 50 per cent of jobs, which one would assume is reasonable. Agriculture alone is supposed to provide 13.053 million (38.08 per cent) jobs. This again is highly doubtful because the performance of agriculture has been fluctuating as seen from 1979-80 agricultural output. If other inputs like water, fertilizer and fuel are not readily availdale at reasonable prices, that might lead to short fall in output as well as employment. So here also the targets appear to be on the high side. The manufacturing sector is expected to provide only 16.77 per cent of the total employment which show its meagre capacity to absorb additional labour.

TABLE-2

TARGETS OF EMPLOYMENT FOR DIFFERENT VILLAGE AND SMALL INDUSTRIES

Industries	Employment (in lakh persons)	
	1979–80	1984–85
A *Traditional Industries :*		
1. Khadi	11.24	15.40
2. Village Industries	18.21	35.10
3. Handlooms	61.50	87.00
4. Sericulture	16.00	21.50
5. Handicrafts	20.30	28.00
6. Coir	5.59	8.00
Sub Tatal :	132.84	195.00
B. *Modern Small Industries :*		
7. Small scale industries	67.00	89.00
8. Power looms	11.00	14.00
Sub Total :	78.00	103.00
C. *Others :*	25.00	28.00
Total village and small industries (A+B+C)	235.84	326.00

Note : Employment coverage both full time and part-time.

Source : Draft VI Plan Summary.

Why we have failed ?

In this section, we must analyse some reasons why in India it has not been possible for us to significantly reduce the number of unemployed and under-employed persons. The philosophy and conduct of Indian economic policy has actually aggravated the employment problem. According to Joshi & Joshi[9] some of the reasons given below are important.

1. Undue emphasis on capital-intensive technology of production and on heavy industry,
2. The superiority of the above was based on the idea that they would generate bigger investiable surpluses than labour intensive methods.
3. Further, we liked to set up 1st, 2nd and 3rd generation capital goods industries, This ignored the possibilities of foreign trade.
4. Even though we thought that capital intensity is desirable, it does not mean all capital goods and machine tools need be produced domestically.
5. Given relative factor proportions and cost conditions as between India and developed countries, greater export-orientation could have achieved higher output and employment.
6. In addition to setting up of capital goods, import substitution in a wide range of consumer goods was encouraged many of them, heavily capital-using.

Thus the organised industrial sector came to acquire the characteristics of an 'enclave' using modern techniques to produce modern products catering to middle and upper income groups, but with relatively low employment potential.

Employment creation policies

The motivation for these policies is to employ labour which has low opportunity cost in more productive occupations. Such labour cludes the un-and under employed and also the working poor. The possibilities for such productive increase in employment exist both within and outside the organised sector and involve changes in technology of production and pattern of output.

Organised sector : As noted earlier in this paper, we find that employment potential of organised industry is extremely limited. But we hasten to add that it is limited only because of the existing technology. And it is often asserted that the scope for changing techniques is non-existent. This view is one-sided and pessimistic bacause (1) Indusries with totally fixed coefficients are rare : (2) In many industries techniques of production can be varied; (3) Construction is one exemple, characterised by great deal of flexibility; (4) Excess capital intensity in India is seen from under-utilisation of installed capacity;[10] (5) Greater exposure to international markets (reducing protection) would increase demand for labour by increasing profitability of labour intensive techniques; (6) We can achieve a rapid growth rate in export of labour intensive manufactured products through a vigorous programme of export promotion. This will contribute significantly to productive employment creation; (7) A great deal of industrial output in India at present caters to luxury consumption of upper income groups and is both import-intensive and capital-intensive.

We should certainly favour changing the pattern of consumption in India in a more appropriate labour-using direction through suitable taxes. The measures given above would encourage some unorganised industries, make it easier for many of them to compete.

Unorganised sector : Hone's[11] figures for India show that the production of *bidis* provides 1 to 1.5 lakh jobs against 12,000 employed in modern cigarette industry, using imported tobacco. Soap employs 50,000 in cottage industry as against only 5,000 in the modern sector which is heavily capital and import using. The modern match industry employs only 20,000 workers and supplies 50 per cent of the Indian market: the small scale and cottage industry employs 2 lakhs. One would think that suitable manipulation of excise duties could shift consumption and production towards labour-using products in all these cases.

Agriculture : The vast majority of Indian labour force has to survive in agriculture and so will most of the new entrants to the labour force. An employment creation policy will have both positive and negative roles to play. The positive role is connected with a comprehensive rural works programme, for building the infrastructure- irrigation, land improvement and roads- that agriculture so badly needs would transform the Indian countryside. But we cannot expect any major rural works programme without extra taxation. The potential exists for extra taxation of the rural rich who are the main beneficiaries of Green Revolution but at the moment it is equally clear that the political will is lacking. The negative aspect of employment creation policy in agriculture is to prevent labour displacement. From the social point of view, mechanisation must be very carefully controlled.

Conclusion

One may suggest some measures for improving our performance in the employment front. Both from economic and social view point, employment is too important an area to be ignored by the planners. Employment creation policies have not been given due importance in the various plans. One may hope that the planners will come forward in future to make bold suggestions to favour the adoption of more labour-intensive techniques, which seems to be the most appropriate technology in the present Indian context.

It is also necessary to make a periodical assessment of manpower resources available in the country as suggested by Tewari.[12] He has suggested that the NSS should undertake every 5 years, full scale surveys into employment, under employment and unemployment. The information will be more useful if available at the micro level—say for district, block or panchayat. He has also suggested that we should have a composite index of development.[13] This new index must include a 'performance index' where different activities under plan programmes, like minimum needs programmes, employment programmes, rural industries projects, etc. are taken into account.

NOTES AND REFERENCES

1. H. Joshi & V. Joshi, 'Surplus labour and the city—A study of Bombay' OUP, 1976, p.2.

2. Labour force consists of persons between the 15 and 59. Labour force is the sum of persons working and seeking work (unemployed workers).

3. According to a recent estimate about 50 per cent of the total population in India are living below poverty line.

4. C. T. Kurien, 'Our Five Year Plan' 1965, p. 151.

5. The Hindu, dated February 24, 1981.

6. In agriculture, employment is measured by number of workers/hectare of gross cropped area.

In mining, employment is measured by growth in physical output. In manufacturing and electricity, employment is measured by growth in gross value of output using respective employment elasticities.

In service, employment is measured by growth in gross value added (Given in VI Draft Plan).

7. Dantwala M.L (1973) 'Poverty in India, Then and Now: 1870-1970', Macmillan India, 1973.

8. Suresh D. Tendulkar 'Planning for Growth, Redistribution, and self-reliance in the Fifth Five Year Plan' Economic and Political Weekly Jan. 1974, p. 63.

9. Joshi & V. Joshi, op. cited; for an excellent analysis of the problem, see ch. 6 of this book.

10. According to a report from Ministry of Labour and Rehabilitation, Government of India (May 1973) in public sector, underutilisation of capacity was 60 per cent in 1970-71, 59 per cent in 1971-72, 67 per cent in 1972-73.

11. Angus Hone, 'The employment potential of appropriate technology and export based industrialisation in South Asia, Analysis and Policies' Oxford, 1974.

12. J.N. Tewari 'Data base for V Five Year Plan — Some critical Comments' — Economic and Political Weekly Jan. 26, 1974 p. 107.

13. Already there is an 'index of development' based on population, tax effort, backwardness, needs of continuing irrigation, power projects and special problems.

The Paradox of Poverty and Longevity — The Kerala Experience

By **K. Ramachandran Nair**[*]

Economic indicators about Kerala reveal several paradoxes. While the people of the state enjoy higher longevity compared to those of the entire country, they appear poorer, in terms of per capita calorie intake. The state also enjoys a higher level of educational and health facilities. In contrast, the state is industrially backward inspite of an abundance of raw materials and a fairly well developed infrastructure. It also has a heavy backlog of unemployment. In this article, the author analyses some of these parodoxes.

IN order to live we must satisfy a variety of needs. When important needs are not met, individuals or families are said to be in poverty. The problem of defining poverty is largely a cultural problem and involve a lot of value-judgements since life styles, standards and norms vary from society to society. There are, however, two broad concepts of poverty: relative poverty and absolute poverty. Relative poverty is often measured in terms of inequality in income distribution. Absolute poverty is measured in terms of some kind of notion of 'subsistence', considered appropriate to the circumstances of the particular society concerned. In developing countries where incomes are generally low, absolute poverty is reflected mainly in the inadequacy of food intake and the consequent malnourishment and undernourishment on a mass scale. Besides food intake, minimum subsistence needs of clothing, housing, education and health are also to be taken into account in ascertaining the level of poverty.

Social functioning is adequate only if these needs are fully met. If there is a failure of need fulfilment, one will be in poverty. A minimum income is, therefore, necessary to fulfil the needs. This minimum income is generally referred to as the 'poverty line'. The number of persons or families below this poverty line can then be counted through a statistical survey. Poverty may also refer to 'want' and 'deprivation'. These are closely interlinked in the analysis of the dynamics of poverty. (Dudley Jackson: *Poverty* Macmillan, 1972). The dynamics of poverty are reflected in such factors as below average education, low quality education, hindrances to study, substandard housing, poor health, illness, lack of hygiene, low life expectancy, high infant mortality, unemployment and underemployment, homelessness, family breakdowns and the consequent social and psychological stresses etc. Though many of these are not susceptible to accurate empirical measurement, they give an overall idea of poverty in a society.

Studies on poverty in India were initiated chiefly by *Dandekar* and *Rath*. Since then a number of all-India studies and regional studies have been undertaken. In most of these studies, poverty was measured in terms of *per capita* income, *per capita* consumer expenditure and *per capita* food intake or calorie intake. Most exercises on estimation of the level of undernourishment and poverty were based on the NSS data on consumer expenditure. A variety of factors such as sex, age, body weight, nature and intensity of activity and climate determine a person's nutritional requirements. Of course, these factors vary from person to person and from region to region. So the task of determining an average norm for a given population became difficult. (During 12-15 January 1981 a technical paper entitled "Poverty: Concept and Measurement" prepared by the CSO was discussed at the National Conference on Social Science Research. See *Economic Times* report "CSO can't assess poverty", January 19). However, some approximation was possible as laid out by expert bodies like the Indian Council of Medical Research (ICMR). According to the ICMR norms, the daily *per capita* allowance of calories for an adult in India ranged from 2,400 (for light and sedentary work) to 3,900 (for heavy work). The average norm for Kerala was estimated as 2,200 calories. This was of course lower than that of all-India because the proportion of workers in total population in Kerala was lower.

On the basis of NSS data, Kerala had the lowest food intake and, therefore, had the highest incidence of poverty in the entire country. The *per capita* calorie intake in Kerala was estimated to be 1,620 in 1961-62 as against 2,445 for India, 2,891 for Punjab and 3,037 for Rajastan. If the minimum standard of 2,200 calories *per capita* was taken, 90 per cent of Kerala's population had to be treated as undernourished. The scale of poverty in Kerala was not only higher than in other States in India, but among the highest in the world. (Centre for Development Studies: *Poverty, Unemployment and Development Policy — A Case Study of Selected Issues with Reference to Kerala*, 1975). A recent study showed that over the period 1961-62 to 1973-74 the *per capita* calorie intake in Kerala declined from 1,620 to 1,571 (P. G. K. Panikkar: Inter-regional Variations in Calorie Intake", *EPW*, 1980 October Special Number). Further, compared to the rural areas (1,631 calories), the *per capita* calorie intake in the urban areas was lower (1,554). Within the State also, considerable inequality in *per capita* calorie intake was reported between different sections of the people classified on the basis of occupation level of education etc.

---

[*] Dr. K. Ramachandran Nair, Reader, Department of Economics, University of Kerala.

However, the NSS data and the estimates based on them could not be taken as the final picture. Estimation of calorie intake or calorie availability on the basis of consumer expenditure data alone was not correct because of the composition of food basket and food budget varied from region to region. For example, the proportion of cereals consumed in Kerala is lower and tapioca consumption is also peculiar here. The CDS conducted a Diet Survey in 1973. It showed that in terms of actual calorie intake, the proportion of undernourished persons in Kerala was slightly over-estimated. While the NSS data showed that 85 per cent of the population in Kerala was undernourished, the Diet Survey fixed it at only 66 per cent.

Using the data on foodgrains production within the State and the inter-State movements of foodgrains, the *per capita* availability was estimated as 2,339 calories, while the actual calorie intake was only 1,620 based on NSS data. Obviously, this gap between *per capita* availability and *per capita* actual intake was due to unequal distribution of income and purchasing power among the population. The system of public distribution has reduced this gap to some extent. This system operates at three levels. (i) Fair price shops selling foodgrains at subsidised prices. But since 1961-62 the issue prices at these shops have been rising. It is also reported that the offtake in the shops have declined absolutely and the majority who patronise the shops do not belong to the absolutely poor. (ii) The mid-day school lunch programme. (iii) Feeding centres under the Maternity and Child Health Programme to cover pre-school children and expectant nursing mothers. The success of these programmes depended on the State's food procurement policies.

Though measures of public distribution of foodgrains lessened the effects of inequalities in income on the food intake of poorer sections to some extent, forces like inequality in the distribution of land, rapid growth in population and unemployment were working in the opposite direction. Through land reforms tenancy was ended in Kerala and rental income from land was virtually abolished.

TAX PAYERS !
SECURE PROMPT CREDIT FOR YOUR INCOME TAX PAYMENTS

The Income-tax Officer gives you credit for your tax payment on the basis of the counter-foil of the challan received from the authorised bank where you make the payment

Surely, you would like your tax payments to be credited to your account in the records of the I.T.O. promptly and fully.

THEN CHOOSE THE APPROPRIATE CHALLAN FORM FOR EACH PAYMENT

There are separate challan forms for the various types of income-tax payments. These are :

For payment of	*No. of challan*	*Colour of the band in challan form*
Advance Tax		
By companies	1 (ITNS 35A)	Red
By others	7 (ITNS 35)	Blue
Self-Assessment Tax		
By companies	3 (ITNS 166)	Red
By others	11 (ITNS 166A)	Blue
Tax Deducted at source		
From salaries	9 (ITNS 191)	Blue
From other payments		
Made to companies	2 (ITNS 39A)	Red
Made to others	8 (ITNS 39)	Blue

THE NUMBER OF CHALLAN IS INDICATED ON THE TOP LEFT HAND CORNER.

For payment of tax due on regular assessment, the appropriate challan will be supplied to you by the income-tax Officer.

Use of a wrong challan may result in misclassification and consquent difficulty in giving prompt credit for the tax payment.

FILL THE CHALLAN FORM COMPLETELY AND CORRECTLY

And make sure you write legibly on all foils of the challan :

- Your name and address
- I.T.O.'s Wards or Circle where you are assessed or assessable. In case you are a new assessee, mention "NEW CASE" also on the top of each foil of the challan.
- The amount of income-tax and surcharge separately.
- Your Permanent Account Number/GIR Number.
- Assessment Year.

A mistake or omission may result in undue delay in giving credit to you for your tax payment.

Correct entries in the Department's Books are as important as prompt payment of taxes. Take due care to ensure both.

PAY TAXES RIGHT
BUILD NATION'S MIGHT

DIRECTOR OF INSPECTION
(Research Statistics, Printing & Public Relations)
INCOME TAX DEPARTMENT
New Delhi-110001

davp/81/65

Hutment dwellers or *kudikidappukars* were given *pattayams*. But due to partitioning of land to escape ceilings there was little surplus land. From whatever little was declared as surplus, only very little was acquired and a small slice was distributed to the landless. The proportion of landless agricultural population continued to be large. Though, through political power and unionisation, a segment of this section of working people in agriculture succeeded in securing a rise in their wages, the number of days of employment available to them was shrinking.

The agricultural labour constitutes a significant segment of the poverty population in Kerala. Field studies showed that the incidence of child mortality and miscarriages among them was very high. *(Joan P. Mencher)*: "The lessons and non-lessons of Kerala—Agricultural Labourers and Poverty," *EPW*, 1980 October, *op. cit.*). They had on an average only about 70-75 days of employment a year. Though wage rates were high, number of days of work was less. Less work for them meant less to eat. Growing unemployment created a desire for smaller families. Since the unemployed elders stayed at home, most children attended school and of course there was the additional attraction of the mid-day lunch at school. Sample data showed that the *per* capita calorie intake among agricultural labour in Kuttanad was very much lower than in Palghat. The calorie intake was still lower during the rainy season as compared to harvest season. Two decades ago, the deficit in calorie intake used to be made up by eating tapioca. But now tapioca has become an expensive item of food due to reduced production and diversion of supplies to starch-making units. The family budgets of agricultural labour households also did not provide for such contingencies as pregnancy, illness, marriage and death.

The rapid growth of population and unemployment has accentuated the inequalities in Kerala. Throughout the period, 1901 to 1971, the annual rate of growth in population in Kerala was higher than that in India. This was the result of a significant fall in death rate consequent on the general improvement in the standards of public health and medical care. According to the study by CDS, the percentage of the population treated in hospitals, considered as an 'utilisation ratio', was found to be the highest in Kerala (80.2 per cent in 1965) and this was due to the "location matrix that provided the widest catchment area for its public health and medicare system". Despite very low level of food intake and nutrition, Kerala has reported the lowest mortality rates and the longest expectation of life in the country.

This has baffled many. According to estimates based on Sample Registration System (SRS), the crude Death Rate in Kerala was only 7.6 per 1000 as against 16.9 in India. The infant mortality rate which is considered as a more reliable index of the level of nutrition and of health, had been the lowest in Kerala, at 58.1 per 1000 live births in the rural and 45 in the urban area. As a consequence, the expectation of life at birth in 1971 reached 61 years as against only 47 for India. During 1921–71, the life expectancy in Kerala more than doubled. The improvement of health cannot be simply attributed to higher calorie intake because there is no data to support this view.

The expansion of education, particularly among women, extension of family planning and health services, rise in the age of marriage, pressure of unemployment and social awareness of the long run implications of bigger families must have contributed to the reduction of birth rate in Kerala. It declined from 40 per 1000 in 1931 to about 31.5 in 1972. According to the conventional view, Kerala must have undergone the 'demographic transition' with the startling drop in birth rate and infant mortality rate and a rise in longevity. Many may be tempted to argue that this demographic transition has positively reduced the level of poverty in Kerala. But they forget the fact that medicare alone could not eliminate poverty. Joan Mencher has rightly said: "It is somewhat naive to equate increased literacy and increased longevity with a reduction in poverty........it is rather utopian to claim....that existing institutions and social mechanisms can eliminate poverty in Kerala by simply continuing to do what they are doing now."

Of course, within the given institutional framework, the Government of Kerala in the recent past has introduced several social welfare schemes so as to make a direct impact on the vast vulnerable sections of the poor who are subjected to abject poverty. These sections include farm workers, fishermen, harijans, small and marginal farmers, workers in the languishing industries like coir and cashew, widows, destitutes, physically handicapped and the unemployed. To mention a few schemes, we have pension to farm workers, unemployment relief, seven point programme of rural reconstruction etc. In fact, these schemes are *not* intended to or cannot fully solve the basic problem of poverty in Kerala.

The remarkably high percentage of students in the total population, very limited scale of self-employment, very high degree of dependence on contractual wage employment, limited scope for absorption of more workers in agriculture, general industrial backwardness and high rate of unemployment are some features of the Kerala economy which have a bearing on the problem of poverty. The structure of education in Kerala suggests that a significant proportion of the educated work-seekers comes from the lower strata of society as a consequence of universal primary education and low rate of drop-out. Incidence of unemployment is higher among the educated, particularly among the matriculates. According to one estimate, in 1972 for every 100 new matriculate entrants into the labour market, there were already 250 similarly educated persons waiting ahead in the queues for jobs. In Kerala, the person-day unemployment rate in 1972-73 was the highest in the country. It was 22.73 per cent as against 7.96 for India, 4.2 for Punjab, and 2.10 for Rajasthan. A recent survey reported that 18 per cent of the people who were prepared to work had no employment. *(Report of the Employment and Housing Survey*, Government of Kerala, 1980) 14.11 lakhs were looking for jobs. Only 50 per cent of those employed had permanent jobs. 29.5 lakhs had only temporary employment. The problem would have been extremely acute if the migration of labour on a large scale were absent. About 5.10 lakhs malayalees were working outside the State, of which 2.08 lakhs were outside India. Of the 78,000 persons who went outside the State for employment during the last two years, 93 per cent were outside the country and among them 90 per cent were in the Gulf countries. To lessen the acute problem of unemployment and underemployment, Kerala has launched some schemes of public works with emphasis on construction activity such as the Crash Programme for Rural Employment, the one lakh houses programme and the Labour-cum Development Bank. The idea of promoting special employment-oriented rural works programme, self-employment schemes and mini-industrial estates is also there. But due to lack of basic institutional and organisational changes, such schemes are implemented with inefficiency. The solution to the basic problem of poverty in Kerala will have to be sought primarily through faster growth in output and employment and a more equal distribution of the fruits of growth. Kerala's socio-economic picture is markedly different from that of the country. Here poverty and increased longevity have tended to co-exist. Therefore, the strategy and priorities employed in the national plan will not suit the needs of Kerala. Will Kerala be allowed to formulate an appropriate strategy of development best suited to resolve the paradox of poverty and increased longevity?

New Vistas For Co-operation Between EEC and India

ON June 23, a new agreement between the European Economic Community (EEC) and India was signed at the headquarters of the EEC in Brussels. The conclusion of this agreement forms a new milestone in the relations between India and the EEC by widening considerably the field of co-operation which under the former agreement was basically limited to trade matters. The agreement, being a five-year non-preferential co-operation pact, encourages industrial, technical and scientific co-operation. The two parties also agree to promote and facilitate increased and mutually beneficial investment.

A Joint Commission will be established to promote and keep under review the various co-operation activities envisaged in the agreement, to make recommendations for the use of Community funds available for the implementation of the objectives of the new agreement, and to provide a forum for consultation between the parties. The significance of the new agreement should be considered against the background of the present relations between the EEC and India.

In terms of trade volume, the EEC is India's largest export market with 26 per cent of all exports, whereas 31 per cent. of India's imports come from the EEC. India is one of the largest beneficiaries of the EEC's Generalised System of Preferences (GSP) in order to compensate for the loss of the preferential access to the British market after its entry into the Common Market. Additional concessions have been built into successive GSP offers on such products as footwear, sports goods, prawns and shrimps, packaged tea, castor oil and cashew nuts.

Furthermore, India will benefit considerably from the tariff reductions agreed to by the EEC in the GATT multilateral trade negotiations. Approximately 43 per cent of the EEC imports from India in the industrial sector already enter free of duty, and on 95 per cent of the remainder reduced tariffs under the GSP are applicable. In the agricultural sector, largely as a result of the Community offer on tropical products, the percentage of the EEC imports from India entering duty-free will almost double to 73 per cent., while most of the remainder will benefit from tariff reductions under the GSP.

In the framework of the former agreement, the EEC has provided financial support to such activities as participation by Indian firms in European trade fairs, trade missions in both directions, provision of consultant experts on product quality, marketing etc. In order to improve the possibilities of Indian exports in the European market, an Indian Trade Centre in Brussels was inaugurated in February 1980 with the financial support of the Community.

In the past few years, a committee, consisting of experts from India and the EEC, has identified areas in which co-operation in the field of science and technology would be of mutual benefit, such as new sources of energy; management of scientific information; environmental research and remote sensing of natural resources.

India has always been the principal beneficiary of the financial assistance of the EEC to non-associated developing countries, as the following table makes clear:

(million Units of Account)

	1978	1979	1980
Total funds	65.5	114.5	138.5
of which India	17.4	32.7	28
plus ICRISAT (Hyderabad)	0.8	0.8	0.95

From 1978 on, the EEC has annually allocated 31,000 tonnes of milk powder and 12,700 tonnes of butter oil to Operation Flood II, for the six years which the project will last. The approximate value of this total commitment amounts, at present world prices, to $200 million.

Control of Monopolistic Trade Practices — Indian Experience

By **P. V. Krishna Rao** *

Although the monopolies legislation was enacted more than 20 years ago, the Government efforts to check monopolistic trends and the evils of restrictive trade practices have met with little success. This is largely because of the faulty nature of the MRTP Act and the manner in which its provisions are administered by the monopolies commission. In this article, the author critically analyses the working of the Act and suggests how the lacuna in this piece of legislation can be remedied.

THIS paper examines the experience of the Government of India and the Monopolies and Restrictive Trade Practices Commission (MRTPC) in curbing monopolistic trade practices in important sectors of economic activity, through the operation of Monopolies and Restrictive Trade Practices Act 1969. Part–I of the paper gives some background of the legislation. Part II deals with the structure of existing legislation to curb monopolistic trade practices. Part–III deals with the operation of the legislation and the various problems faced by the monopolies Commission and the Central Government in operating the provisions. In Part–IV some suggestions are offered for effectively curbing these trade practices.

PART-I

The Monopolies Inquiry Commission,[1] for the first time inquired in to the prevalence of monopolistic trade practices in important sectors of economic activity in India. The term "monopoly", according to the Commission, include not only the single supplier in a market, but also the one dominant supplier who has the power to dictate the price in the market. It is also recognised by the Commission that where the market is dominated by a few sellers, monopolistic conditions prevail although it is possible that in such a situation keen competition can also be found. Hence, according to the Commission, in order to find out the extent to which monopolistic trade practices prevail, it is necessary to examine not only the cases where a single enterprise is the sole or dominant producer of the goods, but also the cases where a few enterprises between themselves share such dominating position. On these premises the Commission, while realising that every monopolistic trade practice is on the face of it a restrictive trade practice, distinguished between monopolistic trade practice and restrictive trade practice.

The former refers to "every practice, whether it is by action, or understanding or agreement formal or informal, to which persons enjoying monopoly power resort in exercise of the same to reap the benefits of that power and every action, understanding or agreement tending to or calculated to preserve, increase or consolidate such power". The latter refers to "practices other than those pursued by monopolists which obstruct the free play of competitive forces or impede the free flow of capital or resources in to the stream of production or of the finished goods in the stream of distribution at any point before they reach the hands of the ultimate consumer".[3] As examples of monopolistic trade practices, the Commission gave the attempts made by some industrial units to block the entry for competitors by means of say preventing issue of licenses to new entreprenuers or preventing their implementation, use of threats and price cutting.[4] The Commission also gave the example of charging unfair prices by manufacturers of certain goods of common use including certain drugs. The Commission was therefore convinced that danger of monopolistic trade practices are not imaginary, but do exist in large measure at present or potentially.

The Commission therefore felt the necessity to devise suitable public policy to avert or atleast to minimise these dangers. In pursuance of this approach, it has recommended the setting up of Monopolies and Restrictive Trade Practices Commission to investigate in to the monopolistic trade practices and to pass necessary orders to remedy the mischiefs. A Draft Bill has been appended to the Chapter dealing with legislative recommendations. The Government decision on the report of the Commission was contained in a Resolution dated September 5, 1966, placed before both the Houses of Parliament. In accordance with the Resolution, the Minister for Industrial Development and Company Affairs introduced in the Rajya Sabha, the Monopolies and Restrictive Trade Practices Bill in August, 1967, which was passed in December 1969. The Monopolies and Restrictive Trade Practices Act was brought in to force with effect from the 1st June 1970 and one of the objectives of the Act is to curb monopolistic trade practices.

PART II

The Act defined monopolistic trade practice as a trade practice "which has or likely to have the effect of (i) maintaining prices at an unreasonable level by limiting, reducing or otherwise controlling the production, supply or distribution of goods of any description or the supply of any services or in any other manner, (ii) unreasonably preventing or lessening competition in the production, supply or distribution of any goods or in the supply of any service, (iii) limiting technical development or capital investment to the common detriment or allowing the quality of any goods produced, supplied or distributed, or any service rendered in India to deteriorate."[5] The Act also defined monopolistic undertaking as a dominant undertaking which accounts for 50 per cent or more of total production or an undertaking which together with not more than two other independent undertakings accounts for such 50 per cent or more share in goods or services.[6]

---

* P. V. Krishna Rao is Lecturer, Department of Commerce & Business Administration, Nagarjuna University, Nagarjuna Nagar-522 510.

The Monopolies and Restrictive Trade Practices Commission may inquire in to monopolistic trade practices upon a reference made to it by the Central Government or upon its own knowledge or information.[7] If it appears to the Central Government that any monopolistic undertaking is indulging in any monopolistic trade practice,or that, monopolistic trade practice prevails in respect of any goods or services, it can refer the matter to the Commission for inquiry.[8] If the Commission reports that the trade practice is actually operating or likely to operate against public interest the Government can make any order with a view to prevent or remedy the mischief of the trade practice. The order made by the Government may include, an order regulating production, supply, distribution or control, prohibiting any act, practice or commercial policy, fixing standards, declaring any agreement unlawful and even requiring any party to an agreement to determine the same.

The Act also lays down the criteria by which it can be ascertained whether a particular trade practice is against public interest such as a practice increasing unreasonably, the prices at which goods are sold, or the profits derived from production, supply or distribution of goods, or performance of any service; unreasonably reducing competition in production of any goods or provision of any service; or resulting in deterioration in quality of any goods or services.[9]

The Act provides that if the Commission during the course of its inquiry in to restrictive trade practices finds that any monopolistic undertaking is indulging in restrictive trade practices, it may pass necessary orders under Section 37 (i) or (ii) with respect to restrictive trade practices and submit the case along with its finding to the Central Government with regard to monopolistic trade practices for necessary action.[10]

These provisions in the Act differ in three respects with the Draft Bill prepared by the Monopolies Inquiry Commission. Firstly, according to the Draft Bill definition of monopolistic undertaking, all dominant undertakings *ipso facto* become monopolistic undertakings whereas according to the definition given in the Act only when a dominant undertaking controls 50 per cent of total production it becomes a monopolistic undertaking. Secondly, the definition of monopolistic trade practice contained in the Bill clearly indicate that trade practices indulged by only monopolistic undertakings will be treated as monopolistic trade practices, but where as the definition contained in the Act conceive that even an undertaking which is not a monopolistic undertaking or even a dominant undertaking might resort to monopolistic trade practice. Thirdly as per the Bill, the Commission has powers to inquire and pass necessary orders to curb monopolistic trade practices, but under the Act, it has the power to inquire only and the powers to pass necessary orders have been vested with the Central Government.

PART III

Since the Act came in to force, the Central Government has referred to the MRTP Commission only three cases for inquiry in to monopolistic trade practices. These are, (a) Coco-cola Export Corporation, (b) Cadbury-Fry India Limited and (c) Colgate Palmolive (India) Private Limited. While the reference regarding Coco-cola was made in July 1973, the references against Cadbury-Fry and Colgate were made in March 1974. The Government has mentioned the following practices as constituting monopolistic trade practices in the above cases.

In the case of Cadbury-Fry (India) Limited, (i) paying a high rate of royalty at the rate of 5 per cent of the gross price of such chocolate products to its parent holding company in the United Kingdom, particularly when the nature of such products does not involve sophisticated technical know-how or innovation; (ii) excessive payment of retailers' margin up to 18 to 20 per cent of the trade price of such products; (iii) earning profits of about 40 per cent on the total capital employed by the said company; (iv) unreasonably increasing the prices of such chacolate products for a number of years so as to earn unreasonable profits by taking undue advantage of the monopolistic position of the company and (v) not reducing the incidence of the administrative overheads of the company, particularly their advertisement expenses.[11]

In the case of Colgate Palmolive (India) Private Limited; (i) earning a very high gross profit rate on sales around 31 per cent and a gross profit rate of 42 per cent to 44 per cent on cost of sales as against a reasonable return of 5 per cent on cost of sales; (ii) earning exorbitant rate of profit at the rate of nearly 118 per cent in 1970 and over 158 per cent in 1971 on capital employed; (iii) earning unreasonable net profits after paying taxes of over 50 per cent in 1970 and 46 per cent in 1971 on the average capital employed by the company to the detriment of the consumer; (iv) reaping profits without making any large investments in India as fixed block in buildings etc.; and in not incurring substantial expenditure on reasearch and development in India with a view to produce consumer items of better quality at cheaper rate for the benefits of the consumers; and (v) selling not only what the company produces but also a few products which it gets manufactured in other units and allowing such products to be sold under its own brand name-while these products are manufactured for Colgate by outside agencies with indigeneous raw materials and know-how, the company reaps unreasonable profits to the detriment of the consumer and the smaller units who produce such products.[12]

These three references were challenged by these companies in writ petitions filed in Delhi High court in september 1973 and April 1974 on the ground that the undertakings concerned should be given an opportunity of being heard even before such a reference was made to the Commission and that it will not be based merely on the subjective views formed by the Government in such cases. The High court stayed the inquiry proceedings before the Commission. These writ petitions were heared together in october 1979 and dismissed by a single judgement dated December 13, 1979. These companies however went in appeal to the Supreme Court and the cases are pending with the Supreme Court. No further reference has been made by the Central Government probably because, the outcome of the earlier three references was not known and because the procedure adopted by the Government in making a reference has been challenged in a writ petition.

The Commission, on its part, instituted a *suo moto* inquiry under section 10 (b) in July 1975 against Avery (India) Limited, which is engaged in the manufacture, sale and servicing of weighing machines. The company is alleged to be indulging in the following trade practices.

(a) Fixing prices of weighing machines unrelated to and without taking in to account the actual cost of production and supply there of;

(b) maintaining prices of weighing machines at an unreasonable level and increasing unreasonably the prices at which weighing machines are sold and the charges at which weighing machines are serviced and repaired; and

(c) increasing unreasonably the profits derived from the production supply and distribution of weighing machines and from the performance of servicing (including repairs) of weighing machines.[13]

Avery challenged the jurisdiction of the Commission to conduct the enquiry on three grounds: Firstly, it was pointed out that the Commission, as defined in the Act, must necessarily consist of a Chairman and at least two other members and argued that the body conducting the enquiry had neither a Chairman nor at least two other members and so was not the 'Commission' empowered to conduct the enquiry and was accordingly without jurisdiction to do so.[14] Secondly, it was contended that on a true and correct construction Section 10 (b), the Commission did not have power to conduct a *suo moto* enquiry independently of Section 37 enquiry. It was pointed out that such an enquiry, if pemitted to be held, would be futile and without sequitur, that is, even if the Commission finds that the undertaking is indulging in a monopolistic trade practice, it can only submit a report to the Central Government which cannot pass any remedial measures under Section 31 (3) because the passing of such measures is linked only to references made by the Government under Section 31 (1).

Thirdly, it was contended that on a true and proper construction, section 10 (b) empowered an enquiry in to monopolistic trade practice indulged by only a monopolistic undertaking and therefore the Commission did not have jurisdiction to conduct the enquiry as it was not found not be a monopolistic undertaking by the Central Government.

The Commission rejected these contentions in its order dated September 2, 1977. In regard to the first contention, the Commission's only member stated that Section 16 (2) of the Act clearly provides that the powers of the commission may be exercised by Benches formed by the Chairman of the Commission among the members and there was nothing to suggest that it come in to force when the Commission has more than three members. It also pointed out that Section 18 (1) provides that the Commission have the power to regulate the delegation to one or more members of such powars or functions as the Commission may specify. Accordingly the Chairman constituted a Bench constituting only one member for exercising and discharging all the powers and functions of the commission. Moreover, Sec. 6 (4) provides that no act or proceedings of the commission shall be invalid by reason only of the existence of any vacancy among its members or any defect in the constitution of the commission.

Regarding the second contention, the Commission stated that sec. (4) is concerned only with monopolistic trade practices resorted by monopolistic undertakings and having regard to the definition of monopolistic trade practice in Sec. 2 (i), it is quite possible that a non-monopolistic undertaking might resort to monopolistic trade practices and therefore there was no reason why the commission should not take action in respect of those practices which are resorted by non-monopolistic undertakings under sec 10 (b). Regarding the non-sequitur of the proceedings, the Commission opined that simply because the Act has not specified the manner in which the enquiry under Sec 10 (b) has to be completed, there was no reason why the power of the commission should be defeated. The inquiry could be concluded in the same manner in which the inquiry under Sec. 37 (4) was to be concluded, namely by submitting the case to the control Government with the finding regarding the existence of monopolistic trade practices.

Regarding the third objection, the Commission stated that, simply because the undertaking has not been registered as dominant/monopolistic undertaking, there was no reason to suppose that the Commission has no jurisdiction to inquire in to the question of monopolistic nature of the undertaking. The *suo moto* powers under Sec 10 (b) are self contained and the question of monopolistic nature of the undertaking has to be decided under the self contained provisions of Sec 2 (j). Further, the examination of monopolistic trade practices can be undertaken even in respect of undertaking which are neither dominant nor monopolistic if they resort to monopolistic trade practices as defined in the Act. But the company filed an appeal before the Supreme court against the Commission's order. Further, proceedings before the Commission have been stayed by the Supreme Court.

The Commission also initiated action under Section 37 (4) against two companies, namely, Gramophone Company of India Limited and Graphite India Limited. In the case of Gramophone company of India proceedings were initiated by the Commission under Section 37 (1) on the application of the Registrar made against the company in respect of certain restrictive trade practices. During the pendency of the proceedings, the Director of Investigation and Deputy Secretary of the Commission wanted to proced under Section 37 (4) with regard to monopolistic trade practices practised by the company, which filed two applications for cancellation of a letter and a notice sent to it for that purpose.

The company contended that, before the Commission can take action under section 37 (4), there has to be a 'finding' that it was a monopolistic undertaking and that it was indulging in restrictive trade practices. Such 'finding' can not be given unless the Commission's enquiry about restrictive trade practices was completed. Hence, there has to be first a completed enquiry in to restrictive trade practices before proceding to enquire about monopolistic trade practices under Section 37 (4).

The Commission however, refuted the contention, held that the word 'find' in Section 37 (4) did not involve a judicial determination but meant only "to come upon or meet with or to come to perceive" and could mean only a tentative inference not akin to a 'finding'. The enquiry in to monopolistic trade practices under Section 37 (4) could be simultaneous with the enquiry relating to restrictive trade practices. The idea in making this provision was to avoid multiplicity of proceedings. The conditions for the application of Section 37 (4) are; (i) the Commission should find during the course of an enquiry under Section 37 (1) that there is a monopolistic undertaking and the it is indulging in restrictive trade practices; and (ii) the Commission should make necessary orders with regard to restrictive trade practices.

Once these two conditions were fulfilled, the Commission may submit its findings with regard to monopolistic trade practices to the Central Government. This could be possible only if an opportunity of hearing was given to the undertaking with regard to monopolistic trade practices. Therefore, a completed enquiry under Scction 37 (1) and finding with regard to restrictive trade practices in such enquiry were not considered to be conditions precedent to the exercise of power under Section 37 (4) by the Commission. But the company filed a writ petition in the Dethi High Court and obtained stay against the enquiry proceedings. The writ petition is still pending.

In the matter of Graphite India Limited also, a *suo moto* enquiry in respect of certain restrictive trade practices practicised by the Company was started by the Commission under Section 37 to find out whether the company was a monopolistic undertaking in respect of the productson, sale and supply of Graphite Electrodes. The company contended that for the purpose of an enquiry into restrictive trade practices, the status of the company was not material and therefore the Commission had no jurisdiction to enquire in to its status as a monopolistic undertaking, since the inquiry was for the purposes of restrictive trade practices alone. The Gommission however turned down this argument by holding that for the purpose of taking action under Section 37 (4) an enquiry in to the status of company was necessary and fair. It held :

> "for the purpose of Section 37 (4), where it appears to the Commission that an undertaking may be monopolistic undertaking, in order to be fair to that undertaking, the notiee of enquiry issued by the Commission states that even the status of the respondent as a monopolistic undertaking would be inquired in to so that a finding on the point could be arrived at. The status of the respondent as a monopolistic undertaking is material for that purpose and the Commission tries to conform to rules of natural justice by giving an opportunity to the respondent on that issue. It is therefore clear that the Commission has jurisdiction to enquire in to the respondent's alleged position as a monopolistic undertaking.[15]

But this company also filed a writ petition in the Calcutta High Court against the enquiry proceedings obtained a stay.

Thus, the efforts of the Government and the MRTP Commission to curb monopolistic trade practices have been infructuous. Only six cases were made out and in none of them could the Commission complete the enquiry. Thus the "Indian experience of controlling monopolistic trade practices with divided responsibility and overlapping jurisdiction of the statutory enforcement agency and Central Government and through an ineptly drafted legislation has been quite disappointing."[16]

PART-IV

It is necessary to amend some of the provisions in the Act in order effectively curb monopolistic trade practices. It is also necessary to remove some of the administrative obstacles in implementing the legislative provisions. The Sachar Committee recommended certain modifications in the Act in order to effectively curb monopolistic trade practices. It recommended that Section 2 (j) containg the definition of the term "monopolistic undertaking" should be deleted as the Act assumes that it is possible for a non-monopolistic undertaking also to indulge in any monopolistic trade practice or restrictive trade practice. It also recommended, an expanded, definition of the expression 'monopolitic' trade practice' in Section 2 (i) incorporating in it the provisions of Section 32 which laydown the circumstances in which such a trade practice is deemed to to prejudicial to public interest and opined that adoption of this definition will render Section 32 redundant and therefore be deleted from the Act.

But the recommendation of the committee for the deletion of the definition of the monopolistic undertaking is not based on the fuller understanding of the difference between a monopolistic trade practice and restrictive trade practice. Generally, monopolistic trade practices are related to the behaviour that may be adopted by an individual by reason of the fact that its individual market share is dominant, whereas restrictive trade practices refer to concerted action undertaken in pursuance of a voluntary agreement to avoid competition by two or more traders, regardless of whether their individual or joint market share is or is not dominant.

Therefore, it is necessary to retain the definition of monopolistic undertaking and clarify in the definition of monopolistic trade practice that any practice indulged by a monopolistic undertaking is termed as monopolistic trade practice. At the same time, it is not at all necessary to distinguish between a dominant undertaking and a monopolistic undertaking as it is done in the Act. This distinction is unwarranted and is likely to cause considerable confusion in the determination of the fact of monopoly. For the purpose of anti-monopoly law, the two come to the same. The only reason for making a distinction in the Bill was perhaps that the term monopoly undertaking includes, besides a dominant undertaking, an oligopoly where more than one independent firms on the strength of the Joint market share indulge in monopolistic practices. Therefore Section 2 (j) should be revised by deleting the word 'which' from Section 2 (j) (i) so that a dominant undertaking *ipso facto* become a monopolistic undertaking. The definition of the monopolistic trade practice should also be modified in order to include in it an important aspect of monopolistic behaviour namely, price discrimination and other forms of discriminatory practices which affect competition and distribution of resources and economies of scale.

The Sachar Committee also recommended that the existing lacuna, i.e., absence of co-relation between the provisions of Section 10 (b) and Sec. 31 should be removed and suggested that the Commission should be given same independent power to inquire and pass final orders with regard to monopolistic trade practices also as in the case of restrictive trade practices. The committee, has also referring to section 37 (4) and realised that there is no corresponding power vested in Section 31 of the Act to inquire in to and pass final orders regarding restrictive trade practices that may come to the commission's notice during the course of enquiry relating to monopolistic trade practices and such power should also be vested in the MRTP Commission.

But the committee stated that the provision in Sec. 31 (1) which empowers the Central Government to make a reference to the Commission for inquiry in to monopolistic trade practice is pre-eminently a desirable section and should be retained. But the attention of this provision leads to a situation where MRTPC could pass final orders with regard to monopolistic trade practices located by it under Sec. 10 (b) or under Section 37 (4), but it can not do so in respect of monopolistic trade practices that are referred to it by the Central Government. In respect of such monopolistic trade practices, the Commission will only enquire and furnish its report to the Central Government, who alone will be competent to pass final orders. This distinction between monopolistic trade practices located by the commission and those noticed by the Central Government and referred to the MRTPC for enquiry looks anamalous. Therefore, the powers to pass final orders in respect of monopolistic trade practices referred by the Central Government to the commission should also be given to the commission. It may be mentioned that Monopolies inquiry commission had in its report recommended that the MRTPC could pass such orders as it may think fit in respect of monopolistic trade practices cases which may come before it.

It is also essential to locate areas of production where dominant/monopolistic undertakings exist so that their areas of operation may be properly regulated. There are two difficulties in this process. Firstly, the classification of goods on the basis of which identification of monopolistic undertakings are made should be such that it clearly demarcate the products which are independent in character. Secondly the data about actual production must be available for the recent past in order to have clarity about the existence of a monopolistic situation.

In India, the classification of goods was made in 1971 under the MRTP (classification of goods) Rules. This classification is shorter than the classification adopted by the Monopolies Inquiry Commission and it is only adhoc classification not conforming to any standard scientific system. It also aggregated a number of independent products. The MRTP Commission as early as in 1973 observed that "aggregating together products which are different from the point of view of the consumer would make it difficult to locate monopolistic undertaking in such manner as to guard public interest and take steps against monopolistic trade practices".[17] The Government of India have been considering to amend the MRTP (classification of goods) Rules 1971 and the draft of the revised rules was published in the Gazettee of India Extra-ordinary dated 15-7-1978, but it could not be finalised up to this date. Therefore it is essential to immediatly revise these rules in order to make them more elaborate consistent with the objectives of the MRTP Act. It is also important that the classification adopted should remain stable and should not be changed frequently. Latest technological developments and extent of substitution between different goods are to be taken in to account while revising these rules.

Regarding collection of data, at present, there is no mechanism or machinery for the collection, maintenance and publication of data. Sachar committee recommended that the Government should make necessary arrangements in this regard immediately, It also recommended that the data now collected and published by the data collecting departments like DGTD etc. could be taken in to account by the Government for the purpose of determining the monopolistic position of an undertaking. This will not be helpful unless there is uniformity in the classification followed by these Government authorities and the classification drawn up under the MRTP Act. A classification largely based on the standard classification adopted by the Central Statistical Organisation can perhaps greatly facilitate data collection. compilation and publication and ways and means can be worked out to see that there is uniformity in the classification adopted by the C.S.O and that worked out for the purposes of MRTP Act. The agencies concerned with collection of data have their own problems in making up.to-date publication of the same. If past experience is any guide, it will be too much to expect that in the next few years, up to-date data will start forthcoming. Therefore it can be suggested that in those cases where up to date data is not fourthcoming, the question of dominance/monopoly could be determined taking in to account the average of the figures for three years for which latest figures are available with the Government.

The MRTP Commission should also be strengthened in order to enable it to do its work expeditiously. The size of the Commission should be increased, as the existing ceiling of nine members provides little scope for efficient division of labour for performing Commission's three fold functions. It is better if a separate body is created for discharging the functions relating to monopolistic trade practices so that it can do the work more quickly.

Lastly, as the monoplistic positions tend to create complacency and destroy the urge to improved methods of production, the Commission has to examine from time to time, the structure in the monopoly industry, so that it can suggest suitable ways for effecting improvement and avoiding obsolescence[18].

REFERENCES

1. Monopolies Inquiry Commission was appointed by the Government of India in 1964 to inquire, interalia into the prevalence of monopolistic and restrictive trade practices and suggest measures for curbing the same. The Commission submitted its report in 1965.

2. Report of the Monopolies Inquiry Commission Vol. I and II, Government of India, 1965, P. 126,

3. Ibid.

4. Industries in which these practices were prevalent are sewing machines and Components, Stencils, Baby food and Rubber products.

5. Monopolies and Restrictive Trade Practices Act, Section 2 (i).

6. MRTP Act, Section 2 (j).

7. MRTP Act Section 10 (b)

8. MRTP Act Section 31 (I).

9. MRTP Act Section 32.

10. MRTP Act Section 37 (4).

11. The Fourth Annual Administration Report on the working of the Monopolies and Restrictive Trade Practices Commission, (Government of India, 1975) P. 18-19.

12. Ibid PP 19-20

13. The Fifth Annual Administrative Report on the Working of the Monopolies and Restrictive Trade Practices Commission, (Government of India, 1976) P. 60.

14. The Commission at that time was functioning with only one member and without chairman. This defect in the Constitution of the Commission was challenged in a number of other enquiries.

15. Restrictive Trade Practices in India, orders/judgements passed by the Monopolies and Restrictive Trade Commission Vol. II (Government of India, 1978) P. 83.

16. Varma, D. P. S., "A decade of MRTPC" Economic Times, April 8, 1981.

17. The Third Annual Administrative Report on the working of the Monopolies and Restrictive Trade Practices Commission (Government of India, 1974) P. 83.

18. Report of the Monopolies Inquiry Commission, (Government of India, 1965) p. 163,

We take care of the hands that feed us..

Agriculturist is backbone of our Nation - - and we finance agriculture.
Your savings are a valuable help to us in this task.
Save with
Bank of Maharashtra.

Bank of Maharashtra
(A Government of India Undertaking)
H.O. Lokmangal,
PUNE : 411005.

R.A.ADVTG.

BANK OF
बैंक ऑफ
महाराष्ट्र
SAVINGS

Rationale of Government Controls Vis-a-Vis Industrial Expansion in the Private Sector

By **Nafees Baig** *

Are controls successful in maintaining a balance among various sectional interests and in protecting the weaker sections? An answer to this question can be in the negative if one takes a look at the Indian business scene. In this article, the author examines how the system of licensing and controls has worked in the country and provides an appreciation of the recent policy of reducing their scope.

ONE of the important developments of the past few years has been the increase in the control of private enterprise not only in India but in almost all the countries of the world. The extent of controls varies from country to country, but they proliferate in most under-developed areas to an extent unknown in nineteenth century development[1]. Even in western countries the volume of state intervention has been rising.[2] The legal, economic, political and social implications of this are tremendous. With the growth of industrialism and the development of the factory system, it was but natural that speculation upon the relation of the state to the economic system and institutions in general and private enterprise in particular should occupy a prominent place in the politico-economic philosophy of a country.

In our country also, with the emergence of the objective of achieving the socialist pattern of society or democratic socialism, the government control of private enterprise has assumed enormous significance. It has become necessary for the government to adopt innumerable controls to determine priorities, allocate existing resources to the best advantage, fix prices, determine the pattern of production and distribution of commodities and to regulate the economy through various measures with a view to fitting the industrial expansion in the private sector into the framework of social and economic policy of the government. In view of the importance of the subject, the present paper examines the rationale of these government controls *vis-a-vis* private sector industrial development in India. It will focus on the theory of government controls.

There exists in India a substantial private sector for which a large field of operation is left open, in terms of the 1948 and 1956 Industrial policy Resolution and the present industrial policy of the Government. In the absence of total nationalisation, the tools of state intervention in the operation of this important sector of our economy are the various controls. These controls have led to some misgivings, delay, uninformed interference in the sound economic decisions of the private entrepreneurs, corruption etc. In fact, these allegations did lead to the setting up of the Swaminathan Committee in 1963 to review the operation of controls applicable to the establishment of additional industrial capacity under the Industries (Development and Regulation) Act, the import of capital goods, the issue of capital investment and collaboration and to suggest modification which would reduce delays in decision[3]. Also, there was the apprehension that the control of private enterprise had failed in preventing concentration of economic power which led to the appointment of Hazari Committee with many adverse findings[4].

There are no two opinions about the fact that the primary concern of controls initiated after 1951 was to use these controls as instruments of policy to help in the implementation of the social and economic objective of the planned growth and development of the country. In what follows, the impact of these controls on industrial expansion will be examined.

Industrial Licensing

Indstrial licensing involves authorization of imports, controls on the distribution of raw materials, controls regarding the location of industries and controls of the directions of investment. Through licensing, the government assumes that future industrialisation shall conform to the pattern of industrial development which it has set forth in its five year plans, Industrial policy and Industrial (Development and Regulations) Act, 1957.

In view of the failure of the licensing system as an instrument of channelising private investment and preventing the concentration of economic power, either industry-wise or region-wise, there is a definite trend towards delicensing and loosening of controls. In May 1966, about 11 industries including iron and steel casting and forgings, iron and steel structural glass, cement etc. were delicensed. In February 1968, agricultural tractors and power tillers were placed on the exempted list and later in June, steel billets or ingots and all barium salt and compounds were added to the list. Vanaspati industry was also an important addition. The Ministry of Industries and Supplies had drawn up a long list of industries which will be totally exempt from licensing regulation and restrictions[5]. Elaborating on the type of industries that were proposed to be including the list for delicensing, Mr. T. A. Pai, the then Minister of Industries and supplies remarked, what is the harm in allowing, say cotton spinning mills with a capacity of 40,000 or 50,000 Spindles ? What is wrong in freely promoting agro-based industries or paper ?" He also argued that delicensing would stimulate investment and promote industrial growth in the private sectors[6].

---

* Dr. Nafees Baig is Lecturer, Department of Commerce, Aligarh Muslim University, Aligarh.

On the face of it, the measure looked like a big act of liberalisation. Thus, medium enterpreneurs were free to do what they liked—set up new units, expand the existing ones etc. in any one of the 21 delicensed industries. But, they could do so only if they used indigenous machinery and equipment and needed no imported raw material what-so-ever. Further, in the case of 30 industries, all industrial units, including those run by MRTP houses and foreign majority concerns, were allowed to increase production to the extent possible with facilities already installed. And, in the case of MRTP houses and foreign majority concerns there was a further important condition, namely, that the additional production should be either exported or sold according to the directions of the government. But the field reserved for small scale industries was kept intact and nobody could encroach on it.

Other Controls

Licensing is not the exclusive device and cannot work in vacuum. It must be seen in the totality of various control measures which the Government may employ for industrial expansion. The Capital Issues (Control) Act, 1947 requires the Central Government's consent to the issue of capital by the companies. The object of the Act is to foster a rational and healthy growth of the corporate sector by ensuring that investment does not go into channels which are wasteful and contrary to the objectives of the plan. The Import and Export (Controls) Act, 1947 empowers the Central Government to prohibit or restrict import into and export from this country. The Foreign Exchange (Regulation), Act 1940 prohibits unless the Reserve Bank of India (RBI) grants general or special permission,dealing with foreign exchange making payments to persons not resident in India. The Essential Commodities Act, 1955 exercises controls over the essential commodities in respect of their prices, distribution, supply etc. The Companies Act, 1956, as ammended upto date, enables the Government to exercise control over companies with a view to safeguarding the interests of shareholders, ensuring proper conduct by the management and maintaining a minimum standard of good behaviour and business honesty in company administration. The purpose of the Monopolies and Restrictive Trade Practices Act, 1965 is to control concentration of economic power in a few monopoly or large houses and regulate monopolistic trade practices.

While everybody talks about the necessity of encouraging private enterprises and while a number of controls are instituted for this end in view, most of the officials go on finding ways and means of humbling and stopping private enterprise to emerge. Thus, in spite of the firm intentions underlying the control mechanism, the controlling of controls was far from efficient. Though controls regularly give expression to the view that new concerns and small enterprises should be granted perference in order to counter-act the tendency towards concentration of economic power, it is common knowledge that the controls always favour monopoly and oligopoly and pamper vested interests. Thus, the trend has been in opposite direction. The small industrial units and the new concerns are particularly hindered and discouraged by the multiplicity of controls, for their economic power is so weak that they can hardly deal efficiently with the control authorities and cope with the delays and red tapism involved.

On the other hand, existing larger enterprises enjoy a comfortable position under the protection of controls and make heavy profits through access to the scarce factors made available to them cheaply[8]. It is apparent, therefore, that the big business enterprises have good reason to support the prevailing system of controls. The solid basis is the oligopoly power and the extremely high profits the system affords them. For whenever they succeed in getting a permit, a licence, a loan, a subsidy, or an allocation of foreign exchange, they get a profit.

Controls, thus, are the means by which the government maintains a balance between various sectional interests. Under certain circumstances, the accent may be on the maintanence of certain price ceilings and through these, on the real purchasing power of the income of certain classes. Under other conditions the enforcement of minimum prices might be a necessary corollary to a policy of ensuring a reasonable rate of return on effort in certain times of economic activity. Viewed in the proper perspective, controls are but another aspect of the problem of incentives, for to the extent that controls limit the freedom of action on the part of certaih classes, they provide correspondingly an incentive to certain others and the problem is always to balance the loss of satisfaction in one case against the gain in the other.

REFERENCES

1. Mason, Edward S., *Economic Planning in Under-developed Areas*, Government and Business, Forthan University Press, New York, 1958, p. 10.

2. Gunnar Myrdal, *Beyond the Welfare State*, Yale University Press, New Harven, 1960, pp. 29/p.

3. See Swaminathan, T., Report of the Industries Development Procedures Committee, Ministry of Industry, Government of India, New Delhi, 1964.

4. See Industrial Planning and Licensing Policy, Final Report, Planning commission, Government of India, New Delhi, 1967.

5. Indian Express, New Delhi, Sept. 20, 1975, p, 4,

6. Indian Express, New Delhi, Sept. 20, 1975, p. 4.

7. Vakil C.N. and Brahmananda, P.R., *Planning for a Shortage Economy, The Indian Experitment*, Vora and Co., Bombay 1952, pp 22-23.

8. See United Nations, Economic Commission for Asia and the Far East (ECAFE) Economic Problems for Asia and the Far East Vol XII, No. 3. Dec. 1961, p. 7.

Use of Tax Incentives to Stimulate Investment

By **George F. Kopits** *

CONFRONTED with high rates of inflation and a continued slowdown in the growth of labour productivity, and with the attendant erosion in international competitiveness of their products, several industrial nations are this year stepping up the subsidization of investment activity. This policy effort involves mainly the introduction of various forms of accelerated tax depreciation and increases in investment tax credits or cash grants, thus sustaining the trend toward further liberalization of capital cost recovery.

France has adopted a 10 per cent additional first-year tax deduction for investment undertaken since October 1980 in new assets depreciable under the declining balance method. The Netherlands has raised permanently the basic rate of cash grant (refundable investment tax credit) provided for most machinery and equipment purchases from 7 per cent to 10 per cent, following temporary increases to 10 per cent in June 1980 and to 12 per cent between October 1980 and June 1981. In February, as part of its Social and Economic Recovery Programme, Belgium introduced an exemption of up to 5 per cent of taxable corporate income for reinvested earnings. In the United Kingdom, the budget submitted to Parliament in March contains a proposal to raise from 50 per cent to 75 per cent the initial deduction for industrial buildings purchased since then.

However, the most far-reaching change has been proposed in the United States under the Programme for Economic Recovery, unveiled by the new Administration in February. In broad terms, the proposal (a slightly modified version of the earlier Conable-Jones bill) envisages replacing the existing asset lives by the so called 10-5-3 accelerated system cost recovery plan and applying a combination of double-declining-balance and sum-of-the-years digits methods of depreciation over the new lives. These lives are three years for motor vehicles, five years for other machinery and equipment, and ten years for most industrial buildings. The proposal also provides for an extension of the 10 per cent investment tax credit to some structures and to all equipment except motor vehicles, which would qualify for a 6 per cent credit.

TAX SUBSIDY RATES

(A) ON NONRESIDENTIAL FIXED INVESTMENT

(as percentage of asset price)

Country	1973	1980	1981
Belgium	—2.5	—2.5	—2.5
France	—0.1	—0.1	2.9
Germany Feb. Rep.	—6.1	—4.2	—4.2
Italy	4.6	5.2	5.2
Japan	—4.6	—4.6	—4.6
Netherlands	—5.2	0.2	2.7
United Kingdom	6.5	6.9	7.8
United States	1.1	3.9	11.8

(B) ON MANUFACTURING FIXED INVESTMENT

Country	1973	1980	1981
Belgium	—2.4	—2.4	—2.4
France	1.2	1.2	4.4
Germany, Fed. Rep.	—6.7	—5.5	—5.5
Italy	4.1	5.0	5.0
Japan	—3.4	—3.4	—3.4
Netherlands	—4.3	4.2	6.2
United Kingdom	9.8	10.9	13.1
United States	1.3	3.3	12.8

Tax subsidy rates, inclusive of these measures, have been updated through 1981 for nonresidential fixed investment, expressed as a percentage of the market price of assets, on the basis of the methodology used in a previous article (IMF Survey, October 27, 1980, page 333); namely, they have been calculated from the difference in the present value of tax depreciation, additional deductions, tax credits and grants, and of economic depreciation under an inflation-neutral tax system. It is assumed that the nominal discount rate is 10 per cent, the inflation-adjusted discount rate is 5 per cent, and the corporation income tax rate is 46 per cent for all countries.

For nonresidential fixed investment as a whole (see table), the relative position of some countries is expected to change significantly during 1981. Notably, the United States (assuming full implemetation of the 10–5-3 system) would move to the top of the list among industrial countries with a 12 per cent subsidy, ahead of the United Kingdom and Italy, with 8 per cent and 5 per cent subsidy rates, respectively. In France and Netherlands, the subsidy rates increase from zero by about 3 percentage points. The Federal Republic of Germany and Japan seem to maintain the least generous fiscal treatment of capital cost recovery, with tax rates in excess of 4 per cent.

The table also lists the tax subsidy rates on fixed assets used predominantly in manufacturing (industrial buildings, metal-working machinery, other special industry machinery, and general industry machinery), weighted by the share of each asset category within total investment in these assets for each country. As presumably these assets enter more directly in the production of tradable goods, the rsulting tax subsidy rates should have a direct influence on the relative international competitiveness of these countries. The ranking of several countries is affected by the concentration of fiscal incentives in the manufacturing sector. Upon enactment of legislative proposals, in both the United Kingdom and the United States the subsidy rate would climb to 13 per cent, while the French, Italian, and Netherlands rates are clustered around 5 per cent. At the other extreme, the German tax rate remains at more than 5 per cent. Interestingly, the tax subsidy rates on manufacturing assets exhibit wider variation across countries and a larger average increase between 1973 and 1981 than the rates on all non-residential fixed assets. A more detailed measure of tax subsidy rates, by asset groups, is given in the table for 1981.

The tax subsidy rates shown here compare the relative quantitative importance of fiscal subsidies provided for new idvestment in a particular asset aggregate in each country. They do not reflect, however, the actual value of these subsidies to investors, insofar as they exclude intercountry differences in income tax rates and discount rates.—*IMF Survey, April 20, 1981*

---

* Mr. Kopits is Senior Economist, IMF European Department.

Developing Tourism Potential in India

(Contributed)

THE importance of tourism, both international and domestic, to a developing country like India with its vast tourism potential, cannot be over-emphasised. The role of tourism in earning foreign ex-exchange, generating employment and creating understanding among our people as also international goodwill needs no reiteration.

Immediately after taking over the reins of the country early last year, the present Government resolved to adopt a new national approach to tourism. The national approach assumes added significance with the realisation that tourism can hasten the process of national integration. With this end in view, action was initiated towards framing a perspective plan for the rapid development and promotion of tourism in the country. A landmark was reached last December when the Conference of the State Tourism Ministers was convened. The Conference was so broad-based as to involve all agencies connected with one or the other aspect of tourism.

The consensus at the Conference was that development of tourism in a comprehensive and integrated manner would be most effective nationally and internationally. Therefore, the Conference recommended that planning, development and promotion of tourism should be based on the concept of travel circuits. Under the Travel Circuit Scheme, the limited resources available in the country are planned to be put to optimum utilisation. The concept provides for intensive development of tourist centres along selected travel circuits. All facilities required and demanded by tourists will be made available at such centres.

This new concept will enable the tourism planners in the country to have a more realistic assessment of the tourist demand and encourage intensive development of infrastructural facilities by pooling different available resources. The Ministry of Tourism and Civil Aviation has already started bilateral discussions with the State Governments on the blue-prints drawn up by them in reard to travel circuits. These would culminate in framing tourism development programmes of both the Central and State Governments.

During its one year of service to the nation, the present Government has already taken a number of measures to promote tourism. During the calendar year 1980, as many as 35 hotels with 2,830 rooms were added to the approved list of the Department of Tourism. Another 134 hotel projects are under various stages of construction. On completion, these will add 9,603 rooms to the existing hotel capacity. Approval has also been given at the planning stage for 42 hotel projects, which when completed will add another 2,951 rooms.

The Government had appointed an Expert Committee to undertake a countrywide survey to the accommodation requirement at various tourist centres in the country. As suggested by the Committee pilot studies were undertaken at selected centres, such as Bombay, Madras, Calcutta, Gauhati, Shillong and Darjeeling. The Report of this Committee has just been finalised and submitted to Governmet.

Indian Airlines acquired two Air Buses and 4 Boeing 737s during the year to raise its fleet to 8 Air Buses and 17 Boeing 737s. One more Boeing 737 has been acquired. Another three Boeing 737s are expected to be added in 1981. A new feeder services under Vayudoot has been opened to reach the inaccessible tourist places of the Seven Sisters of the North Eastern Region. Similar feeder services will soon open up other tourist areas in the country.

This is not all. The Government is trying to remove one by one all obstacles and constraints that have been encountered over the years in the way of promotion of tourism. Foreign collaboration has been permitted in the hotel industry. This would not only encourage new entrepreneurs to enter the hotel industry but also provide an opportunity to business houses and industrialists to diversify their activities by entering into the hotel field. Now they will be able to draw upon the well-knit marketing and sales networks of internationally renowned hotel chains and set up hotels with their collaboration. This decision of the Government should in the near future take care of the inadequate hotel accommodation in the country.

Talks have been initiated about low cost charter tariffs to India from rich markets. Some degree of understanding has already been reached with a number of countries on mutual charter services.

MPM STARTS ROLLING OUT NEWSPRINT

The Rs. 145-crore expansion project of Mysore Paper Mills Limited has gone on stream. MPM has fulfilled its promise to produce newsprint. It started trial production on its Beloit Walmsley machine with deckle width of 7.1 m, designed to reach a speed of 750 metres per minute. Now, three years and nine months after receipt of industrial licence from the Government of India, the largest paper producing machine in the country has been switched on.

The heartening news of Mysore Paper Mills starting trial production comes at a time when the newsprint situation in the country continues to be bleak, with demand reaching 3,50,000 tonnes per year and the installed capacity remaining at 60,020 tonnes per year. While the start-up production in the MPM newsprint project has been planned to use imported chemical and thermo machanical pulp, it is expected that by August 1981, the captive pulping system in the mills will meet the required quantities of pulp to ensure the gradual increase in production. With the commercial production of newsprint by MPM a few months later, 60 per cent of the capacity of 75,000 tonnes will have been reached in the very first year of production.

Bank Nationalisation: An Assessment

SINCE the attainment of independence, the Government of India and the Reserve Bank have been taking a variety of measures to increase the involvement of banks in the development of India in general, and the rural areas in particular. It was with this intention that the Imperial Bank of India was nationalized in 1955 and the State Bank of India (SBI) was set up, and later in 1959, other eight State associated banks were made subsidiaries to the SBI. Further, 14 major commercial banks in 1969, and 6 commercial banks in 1980 were nationalized. Many other measures such as the Lead Bank Scheme, Differential Rates of Interest Schemes, Credit Guarantee Schemes and Export Interest Subsidy Schemes have been evolved and implemented in the pursuit of the same goal.

While, as a result of these measures, there have emerged qualitative as well as quantitative changes in the functioning of banks, there still remains vast scope for improvement. It is in this background that the author has tried to explain and examine the banking system in the country and in the process, has found many drawbacks and, therefore, has come out with suggestions for improvements.

The book under review begins with analysing the role of banking infrastructure in the process of development through inculcating the saving habit among the people, mobilization of deposits for investment and deployment of credits and thus, imbibing a purposeful dynamism in the fiscal and human resources which otherwise might have been stagnant or spent off for unworthy purposes. The author gives an account of how the structural changes in commercial banks have been brought about for serving the social objectives. The account of arguments advanced for and against the nationalization of banks by pro and anti nationalization groups is quite interesting and goes a long way in proving the fact that the nationalization of banks was not mere a political stunt but had the back-up of a sound logic of socio-economic objectives. Otherwise also, the transformation of class-banking into the mass banking effected during the post nationalization period is too obvious to need any further emphasis.

The book also gives an account of RBI's various policy measures in order to extend the banking infrastructure to rural and remote areas and to make it available to the neglected sections of population and the neglected sectors of economy. It also highlights the measures evolved and effected by different commercial banks in order to attract deposits from various section of society, and to deploy credit and other assistance to poorer sections of population. The author gives an account of banks' organisational and managerial structure and also provides a proposed set up.

While explaining and examining different organizational and operational measures evolved by different commercial banks the author comes to the conclusion that although these publicised measures appear to be quite appropriate and attractive, their operational existence is doubtful to a certain extent.

— **A.N. Pandey**

A PORTRAIT OF NATIONALISED BANKS by H.N. Agrawal, Inter-India Publications, Delhi-35, Pp 334, Rs. 80.

20-Point Programme

The 20 Point Programme and the Student Community: by R. T. Jangam and V. T. Patil; Sterling Publishers, P.p. 159, Rs. 50.

The 20-point programme launched by the Congress Government following the declaration of the national emergency in 1975 is well known. For the then government, while it was a package programme for achieving economic development with social justice, the opposition parties termed it a face-saving device of Mrs. Indira Gandhi following the adverse judgement of the Allahabad High Court, and for justifying the declaration of emergency. Later on, the 5-point programme of the late Sanjay Gandhi was also appended to the 20 point programme and thus it became the 20 + 5 point programme. While the welfare and development objectives of 20+5 programme cannot be overlooked, the background in which it was brought about could not command the support of some sections of the population. Besides, the ferocity of the follow-up actions, instead of producing any lasting result, only helped the programme to become unpopular.

Following Mrs. Gandhi's defeat and Janata Party's victory in 1977, every effort was made to do away with the programme and except in the two Congress (I) ruled states of Andhra Pradesh and Karnataka, the programme became non-existent. However, with the victory of Congress (I) in 1980, the programme has been revived and has now become a major plank of the Sixth Five Year Plan.

It is against the background of the fluctuating fortunes of the programme and its socio-economic implications that the authors have tried to assess the awareness of programme among students and examined the programme and its implementation critically. While the study is confined to Karnataka only and the students covered belong to the Karnataka University only, the outcomes may be generalised for the country as a whole. While the sample students belong to almost all major disciplines of natural and social sciences, the priory inherent in the selection of samples provide scope for further improvement in the selection of samples.

Since not many studies of the kind have been undertaken to access the role and involvement of the student community in the socio-economic development of India, the book under review is a welcome beginning in this direction. The authors have also looked into the background of students and accordingly students' preceptions of the programme. The findings reveal that students are not well aware of such an important national programme and the authors have suggested some ways and means to improve the students' awareness about the happenings around. In the course of the critical assessment of the programme and its implementation, the authors have come out with quite a few suggestions which deserve the attention of the planners and the policy makers.

— **A. N. Pandey**

BOOKS RECEIVED

Agricultural Finauce in India, by R. D. Sharma, Published by Bharat Book Depot, Bhagalpur-2, Bihar, Pp. 237, Rs. 55.

Bonnded Labour in India by Sarma Marla, sponsored by Gandhi Peace Foundation, New Delhi and Academy of Gandhian Studies, Hyderabad; Published by Biblia Impex Private Limited, 2/18, Ansari Road, New Delhi-110 002, Pp. 225, Rs. 85.

What Ails the Public Sector by K. S. Krishnaswamy; *The North-South Income Gap - A Demographic Perspective* by Paul Demeny; *Problems of Wage Policy in India* by Bagaram Tulpule (Ajit Memorial Lectures) Published by Ajit Bhagat Memorial Trust, Ahmedabad and Distributed by Commerce Publications Division Manek Mahal, 90, Veer Nariman Road, Bombay-400 020, all pamphlets priced at Rs. 5 each.

World Development Report-1981, The World Bank, 1818, H. Street, N. W., Washington D.C. 20433 U S A., Pp. 192 demy quarto.

Report of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development Pp. 527, Rs. 45; *Report of the Study Team on Agricultural Credit Institutions in Jammu & Kashmir* Pp. 451 and *Report of the Study Team on Agricultural Credit Institutions in Himachal Pradesh*, Pp. 420 (both unpriced) Published by Reserve Bank of India, Bombay.

Bank Study Forecasts Higher Growth for Sri Lanka

BARRING a recurrence of the drought conditions experienced in 1979 and 1980, Sri Lanka's real gross domestic product (GDP) could improve to slightly above six per cent this year, following a 5.8 per cent advance in 1980, according to a Bank of America report on Sri Lanka's economy. Published by the bank's Tokyo-based Asia Division Economics, Department, the report says, however, that this projection assumes agricultural output — accounting for some 23 per cent of GDP—will rise by 5 per cent.

Growth in manufacturing production (14 per cent of GDP) is likely to rise by 2 per cent because of improved prospects for agro processing and higher demand. Manufacturing will, however, continue to be plagued by power shortages. Construction (5 per cent of GDP) will continue to be buoyant with 6 per cent growth possible this year. Relative to other activities, this rate is significantly slower. Increased gemstone exploitation in the Mahaweli Dam Area and greater external demand for Sri Lanka's coloured gemstones could bring about 14 per cent growth in mining (4 per cent of GDP) — up from 4.9 per cent in 1980.

For 1982, the bank predicts unexciting prospects for Sri-Lanka's economy. The report says even with favourable weather, GDP growth next year will range between 6-7 per cent. Although unemployment remains a major problem, the economic report says the rate should ease slightly to 13.6 per cent this year, compared to 14.4 per cent in 1980. This would reflect higher economic activity, especially in Sri Lanka's free trade zone. The bank says 1982 could see an even further improvement. Inflation in wholesale prices should moderate this year to 26 per cent, as opposed to 36.2 per cent in 1980. Further deceleration is anticipated in 1982 because of continued restrictive fiscal and monetary policies.

Sri Lanka's fiscal deficit should decline drastically from the record-high $ 908 million in 1980 to a projected $ 500 million this year. The Bank economists single out two main reasons for this improved scenario. First, the government is attempting to reduce the fiscal deficit as a means of dampening inflation. Second, and more important, the cut has facilitated the resumption of the remaining $ 175 million in International Monetary Fund (IMF) Special Drawing Rights (SDRS).

Growth in Sri Lanka's export value is likely to increase 18 per cent—versus 15.9 per cent in 1980—while growth in imports should decelerate 41 per cent, compared to 50 per cent in 1980. The result would be a trade deficit of $ 1.4 billion, up from $ 1.0 billion last year. The economic report concludes that Sri Lanka's overall balance-of-payments position will improve this year despite widening trade and current account deficits, reflecting the resumption of the IMF loan facility and increased commercial borrowing in international markets.

Remarkable Progress in Branch Expansion

THE year ended June 1981, the twelfth year of the nationalisation of 14 major banks, witnessed further remarkable progress in the branch expansion of commercial banks. No fewer than 2,773 new bank offices were opened during the first ten months (July 1980—April 1981) of the year. Unbanked centres continued to receive the special attention of banks. Three out of every four new offices were opened in such centres. The number of such offices actually opened was 2,062, against 711 offices opened in banked centres. With the opening of 2,773 new bank offices during the ten-month period from July 1980 to April 1981, the average population per bank office for the country as a whole came down to 19,000 as of April 1981 from 20,000 in June 1980 (based on mid-year population estimates); the averge as of June 1969 (before nationalisation) was 65,000.

With the 2,773 bank offices opened during the year upto April 1981, the total number of new bank offices, opened since July 1969 and upto the end of April 1981 comes to 27,668, of which more than half i. e. 15,227 offices have been opened in unbanked centres. The total number of bank offices as at the end of April 1981 was 35,192, against 32,419 in June 1980 and 8,262 in June 1969.

Out of the 2,773 new offices opened during the period July 1980–April 1981, the 28 public sector banks accounted for 1,784 offices, regional rural banks for 762 offices and private sector banks for 227 offices. Rural centres continued to have a significant share in branch expansion during the year 1980-81. The number of rural bank offices at the end of April 1981 was 17,230 (representing 49.0 per cent of the total number of offices), against 15,101 offices (representing 46.6 per cent of the total) in June 1980. As of June 1969, the number of rural bank offices was only 1,832, representing 22 4 per cent of the total 8,262 offices.

As in the previous years, the relatively underbanked States accounted for a significant share of the new bank offices opened during the year under review. Following the establishment of a large number of new bank offices in these States, the average population per bank office has gone down in all of them.

The progress made by commercial banks in branch expansion in the past year was in line with the broad objectives of the branch licensing policy evolved by the Reserve Bank in 1978 covering the three years 1979 to 1981. The objectives were opening of additional bank offices in deficit districts (i. e., districts in which the average population per bank office, was above the national average of 20,000) in rural and semi-urban areas in order to bring them on par with the national average; a time-bound programme to cover all unbanked block headquarters in the country by bank offices before the end of 1980; establishment of new RRBs and opening more branches of existing RRBs wherever necessary; allowing Lead Banks to open more branches in their lead districts to enable them to discharge their lead responsibilities. These broad objectives have, by and large, been achieved.

A new branch licensing policy, covering a longer period of 39 months from January 1982 to March 1985, is being finalised. The new policy will continue to be in favour of opening offices in rural and semi-urban centres. Special attention is proposed to be paid to the covering of unbanked pockets in less accessible areas of different States.

While selecting such centres for branch expansion, factors such as potential for mobilisation of deposits and grant of advances, availability of banking facilities nearby, and other special features of the regions will be taken into account. The State Governments will be consulted regarding the location of bank offices in rural and semi-urban areas, as well as the types of bank offices (commercial rural or co-operative) suited for the centres. Priority will be given to RRBs for opening branches in districts where they have been set up or are proposed to be set up.

In keeping with the policy objectives, commercial banks continued to ensure an increasing flow of funds to priority sectors—agriculture, small-scale industries, transport operators, professionals/self-employed persons and retail trade/small business. The priority sectors together accounted for advances amounting to Rs. 7,999 crores outstanding as at the end of December 1980, against Rs.6,485 crores in December 1979. The share of these sectors stood at 33.7 per cent in December 1980 against 31.5 per cent in December 1979. An overall target of 40 per cent of total bank credit has been fixed in respect of priority sectors to be achieved by 1985. Within the priority sector advances, banks have been asked to give increasing attention to the credit needs of the under-privileged sections of the society as identified by the Working Group.

Deposits of commercial banks registered a significant expansion during the year 1980-81. Total deposits as on the last Friday of March 1981 stood at Rs. 37,371 crores against Rs. 31,759 crores a year before and Rs. 4,646 crores in June 1969.

Subscribe to :
SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign :* 15 Dollars)
surface mail

WIDIA (India) Registers Impressive Sales

WIDIA (India) Limited registered a growth rate of 16.6 per cent in its turnover in 1980. It rose from Rs. 14.15 crores in 1979 to Rs. 16.50 crores in 1980. The pre-tax profit of the company, which stood at Rs. 1.51 crores in 1979, improved to Rs. 1.80 crores in 1980. The after-tax profit stood at Rs. 93 lakhs against Rs. 89 lakhs in the previous year. The equity dividend recommended is Rs. 16 per share.

The performance of the company was affected by disruptions in its operations due to strike and lockout for a total period of about five weeks in the second half of the year. The company has received a letter of intent to the manufacture of Mining Tools in Medak District, Andhra Pradesh, which is a notified backward area. The company is taking action to convert the letter of intent to an industrial licence, at an early date. It expects commercial production to start in the new plant during the early part of 1982. The company's manufacturing activities are also being accelerated in its existing plant at Bangalore.

Punjab Tractors Achieves Higher Production

Tractor production by Punjab Tractors Limited has gone up from 5,379 in 1979 to 7,116 in 1980 (year ended June 30). The company's sales have registered an increase of 42 per cent, from Rs. 24.12 crores to Rs. 34.34 crores. The profit, after depreciation, was higher at Rs. 2.05 crores against Rs. 1.70 crores in the previous year. The company has stepped up the equity dividend from 12 per cent to 15 per cent.

The company has placed in the market its new harvester combine, Swaraj-8100. This has been well received. Due to production constraints, the company could not meet the demand for its Swaraj tractors fully. During the year, the company shipped its first consignment of 50 tractors against an order worth Rs. 1.10 crores.

Improved Performance by Travancore Cements

The sales turnover of the Travancore Cements Limited has improved from Rs. 3.26 crores in 1979 to Rs. 4.23 crores in 1980. The profit before taxation has improved from Rs. 45.13 lakhs to Rs. 61.97 lakhs. The after tax profit stood at Rs. 40 lakhs compared to Rs. 30 lakhs in the previous year. The directors have recommended a dividend of 15 per cent for the year. The company is pursuing an expansion programme for the production of white cement. It has approached the Centre for the extension of the validity of the letter of intent issued for manufacturing Calcium Carbide.

Higher Turnover By English Electric

The English Electric Company of India Limited increased Rs. 24.37 crores in 1979-80 to Rs. 29.04 crores in 1980-81 (year ended March 31). The company's pre-tax profit improved from Rs. 5.30 crores to Rs. 6.35 crores while its after tax profit rose from Rs. 1.65 crores to Rs. 1.93 crores. The recommended equity dividend is Rs. 2.50 per share.

Rise in Sales of Garware Paints

The sales of Garware Paints Limited have risen from Rs. 15.70 crores in 1979 to Rs. 19.70 crores in 1980 (year ended June 30). The company's gross profit stood at Rs. 1.11 crores against Rs. 95 lakhs in the previous year. Its net profit improved from Rs. 33.94 lakhs to Rs. 38.17 lakhs. The equity dividend is maintained at 16 per cent. The company's exports registered a four-fold increase, from Rs. 24.53 lakhs to Rs. 92.85 lakhs.

Tata-Yodogawa Achieves Higher Turnover

Tata-Yodogawa Limited has achieved a higher turnover despite being handicapped for want of adequate power. The company's total income for 1980-81 stood at Rs. 8.65 crores against Rs. 8.30 crores in the previous year. The net profit for the year works out to Rs. 42.43 lakhs (Rs. 40.36 lakhs) after providing for depreciation Rs. 32.07 lakhs (Rs. 54.40 lakhs). With the carry over balance amounting to Rs. 1.58 lakhs in the profit and loss account from the previous year (Rs. 13.83 lakhs) the amount available for appropriation works to Rs. 44.01 lakhs (Rs. 54.19 lakhs). After transferring to the investment allowance reserve and the general reserve Rs. 10.50 lakhs (Rs. 22.62 lakhs) the profit for distiibution as dividend works out to Rs. 33.51 lakhs (Rs. 31.57 lakhs). The directors have decided to maintain the dividend of 12 per cent subject to tax.

Mangalore Chemicals In the Red

MANGALORE Chemicals and Fertilizers Limited has incurred a loss of Rs. 1.57 crores in 1980 compared to a net profit of Rs. 4 crores in 1979. The adverse results are mainly due to the power cuts imposed by the Government in the early part of the year. The production of urea and ammonia was lower than the targeted figures. Due to lower production, the sales of "Mangala" urea, at 2.46 lakh tonnes, were less by 90,883 tonnes. The company has taken steps to set up an ammonia bicarbonate plant. It also proposes to set up a nitric acid complex.

SOUTHERN
ECONOMIST

August 15, 1981

CONTENTS

EDITORIAL 1
Into A Debt Trap?

CURRENT TOPICS 3
North-South Dialogue; Non-Renewable Energy Sources; Closer to East Africa; Revising Petroleum Target

Exodus From Hinduism: An Aberration? 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Developing Countries and Multinationals: Some Areas of Conflict
By V. C. Sinha
Indian Economy — A View
A Critique of Sixth Five-Year Plan
By Francis Cherunilam
Human Capital: Its Role in Assisting Economic Development
By K. R. P. Singh

INDEPENDENCE DAY FEATURE
(Page 21 to 30)

Bleak Outloook for Oil-importing LDCs
— *World Development Report*

COMPANY NOTES 35
Larsen & Toubro; TISCO; TELCO; Tata Oil Mills; Mahindra & Mahindra; Bombay Dyeing; Hindustan Motors

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Into A Debt Trap?

THE negotiations that India is conducting with International Monetary Fund for an "extended facility" of the order of SDR 5 billion to tide over the balance of payments crisis that is looming on the horizon have provoked strong reactions. Against the background of India's experience with international financial institutions, it is understandable that certain articulate sections should be apprehensive over the country getting into IMF's "debt trap". As against the "debt trap", one should also guard against the "propaganda trap" laid by the ideologues of the left who consider the IMF and the World Bank as agents of "Western imperialism". Arguments tinged with ideology have lost much of their force with the admission of China into these organisations.

Be that as it may, the desirability or otherwise of securing an IMF loan of this magnitude — it is of the order of Rs. 4,500 crores — is to be judged by the criterion of necessity. The major consideration which weighed heavily in favour of India approaching IMF was the widening trade deficit. From Rs. 2,450 crores in 1979-80, it has gone up to Rs. 5,400 crores in 1980-81. The major cause of this deterioration is the oil import bill which has risen from Rs. 1,690 crores to Rs. 5,400 crores. A major factor which contributed substantially to India's foreign exchange earnings during mid seventies, namely, the remittances Indians working abroad, cannot be counted upon in the coming years. Remittances, which rose from less than $ 250 million in 1974 to $ 2.4 billion in 1980, are likely to taper off in view of fewer job opportunities in the Gulf countries. There has been a steady depletion of the country's foreign exchange reserves which had reached the peak level of $ 7 billion in 1979. Lack of buoyancy in the country's exports—at Rs. 6½ thousand crores, they were more or less of the same order as in 1979-80 — is explained by (a) the fall in the global demand for primary commodities and (b) the production bottlenecks at home. Although the trade deficit during the last year of the Sixth Plan is projected at Rs. 3,972 crores, there is no assurance that it will be contained at this level because (a) OPEC may raise oil prices several times in the next few years; (b) inflation in the country, running in two digits, may weaken India's competitiveness in the world markets and (c) in the very process of containing inflation, the Government may step up the import of several commodities. It is to protect themselves from these imponderables that the policy makers have decided in favour of securing a 5 billion SDR credit from the Fund.

That the loan asked for, meets the IMF criteria for providing the "extended facility" is evident from the need to correct the imbalance in the country's payments. The *modus vivendi* for bringing about this correction, which cannot be spelled out in advance, will of course be written into the document that will be initialed before IMF sanctions the loan. Since the object of the extended facility is to help the member-country to redress structural imbalances with a view to bringing about an improvement in the balance of payments, it cannot be said that the loan will be made available without conditions.

Actually, the conditions applicable to the higher tranches of IMF are applicable to the extended facility with some more "dos" and "don'ts" added on to the list.

This, by itself, need not frighten the Indian negotiations into catching the next flight home provided IMF's conditions largely coincide with the policies that are already adopted by the Government. Let the critics, by all means go hammer and tongs after Mr. Venkataraman's fiscal and monetary policies or let them pick holes in what we choose to call his "supply side economics" but let them not, for heaven's sake, use the IMF loan as a stick to beat him with. Actually, there is no need for the Finance Minister to put in extra effort to impress the gnomes of Washington that India is making genuine efforts to fulfil IMF's conditions. The budget of 1981-82 can be used by the fund's staff as, in fact, a case-study to teach the smaller LDCs on how to go about the restructuring business: less of taxation on investment; fewer subsidies (at least on paper), a realistic upward adjustment of administered prices, a flexible import policy and costlier credit.

As if to impress the Fund management, the Government has recently announced a stiff hike in the prices of petroleum products sold within the country and also in the price of crude produced. This goes to show that, as things stand, IMF can approve the loan proposal, not necessarily on the basis of what India promises to do in the next few years, but on the basis of what India has already done. Ideologues of the extreme left should stop playing to the gallery by spreading a scare that Mrs. Gandhi will get into a monetarist binge. India is not Britain and Indira Gandhi is not Margaret Thatcher. Measures aimed at reducing povery and expanding employment opportunities are not in jeopardy. The IMF negotiators are not so short-sighted as to insist on a scrapping of such measures even if the goal, viz., balanced budget, is unexceptionable.

Again, India's repaying capacity was never in dispute. When the repayment of the loan, presumably in 12 equal instalments, commences in, say 1985, India will have achieved a more viable balance of payments through a lower level of oil imports and higher exports. This hope rests on the assumption that, by then, (a) inflation within the country will have been rolled back into a single digit and (b) OPEC will not have raised oil prices to unacceptably high levels. Scare-mongering about another IMF-induced Rupee-devaluation— the first one was effected in 1966 with disastrous consequences both for the credibility of IMF and for the economy of India— needs to be discouraged because the exchange value of the rupee is periodically adjusted with reference to a basket of currencies. The world has travelled a long way from the era of fixed exchange rates.

The complaint, which the Third World's leaders habitually voice at the Fund Bank annual meetings that IMF's lending policies are biased in favour of the "haves" needs to be viewed in the historical setting. To quote from the book, *The Debt-Trap: The International Monetary Fund and the Third World* by Cheryl Payer:

> Since its founding at the end of the Second World War, the IMF has been the chosen instrument for imposing imperialist financial discipline upon poor countries under a facade of multilateralism and technical competence. In this era, the status of a country's relationship with the IMF is the most accurate guide to the fate of its aspirations of autonomous development.

This extreme view may have been partly valid during the fifties and the sixties but the role that IMF has played during the late seventies in helping developing countries to cope with the gigantic BOP deficits induced by the oil price hikes totally belies it. India's own experience, during the fifties and the sixties, shows that the balance of payments difficulties that she encountered were of her own making. Starting with sizable Sterling Balances immediately after the World War, India ran through it within a decade to land in a foreign exchange crisis in 1957, that is, during the Second Plan. Between 1957 and 1966, the policy adopted by the planners to deal with the foreign exchange difficulties was characterised by ad-hoc-ism. During this period, the World Bank came to occupy a prominent position in the aid picture both as a giver of multilateral assistance and as the initiator of the "consortium approach." Detractors of IMF often point to the rupee devaluation of 1966 which was brought about at the instance of IMF and the World Bank. That this did not bring any benefit to India either in the shape of increased exports or larger aid-flow is borne out by facts. But those who like to remind themselves of the 1966 misadventure will do well know that during the past 14 years, India has travelled a long way on the road towards self-reliance. But for the oil import bill, India would not have entered portals of IMF for an extended facility of 5 billion SDRs.

On the occasion of Independence Day (August 15) Southern Economist sends its Greetings to its subscribers, advertisers and well-wishers.

— PUBLISHER

CURRENT TOPICS

Ottawa Summit Clears Way For Cancun

FROM the stand-point of the developing nations, the significance of the economic "summit" of the seven leading industrial nations held at Ottawa in the third week of July lies in the fact that it cleared the way for the North-South dialogue that will open at Cancun, Mexico, in October. At any rate, the Foreign Ministers of the two groups of nations, numbering 22, who met at Cancun to lay the ground-work for the autumn summit, to be held at the same place, were happy over the outcome of the Ottawa "summit". In a negative sense, the United States could have scuttled the forthcoming rich-poor get-together by just refusing to participate in it. Persuasion by his European colleagues led to a softening of President Regan's attitude towards the North-South dialogue.

In the absence of a rigid agenda, the Cancun "summit" is not expected to witness the formulation of concrete measures in respect of trade liberalisation, increased economic assistance and the tackling of the problem of financing oil imports. From the Ottawa deliberations of the "rich seven", it is evident that, engrossed as they are with their own problems, viz., inflation, unemployment and high interest rates, they are unlikely to take a very helpful attitude towards the LDCs. But, at the Cancun preparatory conference, the spokesmen of the rich nations, including the U.S. Secretary of State, Mr. Alexander Haig, showed a genuine desire to launch the North-South dialogue along the lines suggested by the Brandt Commission. On issues like Cuba's participation, the Americans have their own reservations but it is hoped that such peripheral issues will not be allowed to come in the way of the forthcoming "summit".

As the *World Development Report, 1981*, emphasises, the need for structural adjustments was never more urgent than it is today. The radical shifts in the balance of payments surpluses and deficits have placed, on the petroleum importing nations, a heavy burden. While the industrialised countries have been able to withstand the impact of these shifts reasonably well, the developing countries which have to import oil are virtually driven to the wall. If the LDCs are left to fend for themselves, they will be compelled to curtail their imports from the industrial countries. Needless to say, such a policy will only add to the problems of the developed nations by causing a reduction in their export growth. There is, therefore, an urgent need to help the LDCs in financing their essential imports in order to prevent a shrinkage in world trade.

The industrial countries can hurt their own long-term interests by adopting myopic policies aimed at protecting domestic employment by putting up non-tariff barriers against imports from the developing countries. While these issues are often discussed in several forums like non-aligned conferences, UNCTAD and so on, exchanges in a compact, high level forum like the one recommended by the Brandt Commission should lead to the formulation of a time-bound action programme to meet the challenges of the eighties. To quote the Brandt Report:

> A summit meeting would be able to provide a new focus, and a new concentration on current world problems and their possible solutions; it could provide guidelines and a new impetus for future negotiations; it could launch ideas for a world economic recovery programme. But it should, in our view, concentrate mainly on the emergency programme. It should not deflect from the other long term actions to turn round the world economy; in fact, the immediate programme would establish the basis for cooperation and shared responsibility on which the more fundamental changes would rest. But we believe the present deadlock is so serious, and the need to break through is so evident, that nothing should delay discussion and negotiation at the highest level.

A word of warning may not be quite out of place here. The absence of a formal agenda should not encourage the leaders of the North and the South, meeting at Cancun, to deviate from the major issues and dissipate their energies on controversies having no immediate relevance. Past experience shows that in summits of this kind, the participants sometimes do not resist the temptation to gain propaganda advantage by bringing in divisive issues. One can always wax eloquent over the plight of the "boat people", the travails of the Afghan refugees, the "imperialist plot" in El Salvador, the provocative acts of Israel in Lebanon, the racist policies of South Africa, the representation of Kampuchea or scores of such abrasive issues that are admittedly of concern to the Third World countries. If the leaders who are meeting at Cancun are genuinely interested in building bridges—and not in dynamiting them—they should side-step such issues.

Focus on Non-Renewable Energy Sources

THE U. N. conference on new and renewable sources of energy, which commenced with a key-note address by India's Prime

Minister, Mrs. Indira Gandhi, at Nairobi on August 10, has entered a decisive phase. India's proposal for setting up a representative watch-dog organisation for monitoring the implementation of the action programme that is being hammered out at the conference is winning support from unexpected quarters and the chances of its being approved seem to be good. The near-unanimity that is found at Nairobi on the need for joint action is a reflection of the magnitude of the energy crisis. High oil prices have been a major cause of the prevailing inflation in the industrial countries and the slowdown in the already meagre growth rates of developing countries.

Since OPEC started putting up oil prices, right from 1973, the petroleum importing countries have been trying to (a) increase domestic supplies of fossil fuels; (b) step up the use of non-renewable fuels and (c) slow down the use of oil. If the experience of the past 8 years is any guide, these efforts have not had any visible impact on the pricing policies of the oil producers. As Mrs. Gandhi rightly pointed out, side by side with tapping new sources of energy, there is need for an equitable distribution of conventional fuels. In other words, unless the industrialised nations slow down the rate of their consumption of these fuels, the pressure on the limited supplies of fossil fuels would continue This is not easy of solution. The truth is that those who can afford will bid for the available quantaties in the market. Equitable sharing remains, like all statements of pious intentions, a theoretical abstraction because a mere slow down in rate of growth of oil consumption in the richer countries will not bring about an improvement in the peteoleum consumption by the poorer nations. Short of a complete break up of OPEC, the oil producing nations can always prevent a glut in the world market by cutting back production.

The significance of the Nairobi conference lies precisely here. By giving an impetus to the use of non-renewable sources of energy, it can, over 10 or 15 years, bring about a dramatic change, world wide, in the pattern of energy consumption so that the dependence of countries on depleting sources like oil is considerably reduced. OPEC or no OPEC, the shift has to take place. It is a historical necessity— an inevitable process of adjustment to the post-petroleum era.

The pattern of swich-over will of course, be different for the developed countries and the poorer nations. Put simply, the industrial nations cannot, in all conscience, go back to the era of cow dung, fuel wood and bullock cart. Their options will be different. For one thing, an alternative to petroleum fuel can be a variant of alcohol such as ethanol which can be used either as a complete substitute or as an additive to petrol. Even here, a trade-off between the use of corn, for instance, for the manufacture of alcohol and its use for food needs to be considered since a global shortage of food will have more serious repercussions on stability than the shortage of energy. Another possibility is a switch-over to battery-driven vehicles. A breakthrough in the technology for using solar energy— an inexhaustible source— is also possible. Even among fossil fuels, a good deal of substitution is possible. Coal can be used as a substitute either directly or through the processes of gasification and liquefication. Considering that these processes are highly capital-intensive, they have limited application in the developing countries.

The developing countries seem to be better equipped, by the very fact of their under-development, to cope with the proble of high cost fossil fuels. They are not intensive users of energy and their *per capita* consumption either of petroleum or of electricity is a tiny fraction of that of the developed nations. However faulty and uneconomical it may look, their present energy consumption is greatly biased in favour of renewable sources. In the Asian countries, the traditional sources like fire wood, charcoal and animal dung account for nearly 65 per cent of their total energy consumption. In our own country, bullock carts provide the common means of transport in rural areas and despite the growing use of tractors, ploughing of the fields is done by animal power. If they are totally replaced today by petroleum-driven vehicles and tractors, the oil consumption may have to be trebled or even quadrupled from the present level.

There can be no two opinions on the need to strengthen this traditional energy infrastructure but their rational use warrants certain adaptations. The use of fire wood, for instance, has its counterpart in the depletion of the forest wealth. And deforestation posses a greater environmental hazard than emissions from petroleum driven vehicles. It has implications for changes in climate, flood havoc and desertification. One solution for this is afforestation at a rate faster than deforestation; another remedy is to substitute forest wood by crop residues or any combustible waste. The use of animal dung, for instance, is more wasteful than its use in biogas plants.

India, which is a pioneer in biogas technology, can bring about an energy revolution in the villages provided the planners hand down designs which are simple and economical. It is estimated that if all the wet dung available in the country— some 575 million tonnes —is used to produce biogas (mainly methane) it would result in a saving of 13,904 million litres of kerosene oil. Enriched manure—some 206 million tonnes— which comes out as a by product of biogas plants could cause a saving of 1.4 million tonnes of nitrogen, 1.3 million tonnes of phosphate and nearly one million tonnes of potash.

The scope for increasing the uses of renewable sources of energy looks almost limitless. Considering that the planners have yet to fully tap the hydel potential, there exists vast scope for putting up more hydel power stations. Besides, they can think of putting up mini and micro hydel units to utilise even small differences in the levels of the flow of rivers and streams. This aspect does not appear to have received the serious attention of our planners. All in all, India's experience shows that even a switch-over to conventional — and mostly renewable—sources calls for a well co-ordinated effort both at the R & D level and at the level of planning. Mrs. Gandhi's keynote address at Nairobi has triggered thinking along these lines.

Getting Closer To East Africa

BY a happy coincidence of circumstances, India is getting closer to Kenya and other East African countries. It all began with the visit to India by Mr. Daniel Arap Moi in February this year. The visit resulted in the signing of three agreements — two covering trade and economic cooperation and one dealing with cultural exchanges. The area covered by these agreements is quite wide. The industries in which Indian firms have evinced interest include machine tools, sugar, cement, pesticides, drugs, PVC resins and so on.

There is already an agreement, signed between HMT and a Kenyan public sector firm to set up a joint venture for making metal cutting and wood working machinery. Another joint venture in the field of insurance has been set up there in collaboration with India's LIC and GIC. Of the 40 and odd Indian joint ventures operating in Africa, ten are in Kenya alone. India's financial involvement in these ventures is of the order of Rs. 10 crores.

Indo-Kenyan cooperation got another fillip with the visit of the Indian President, Mr. Sanjeeva Reddy to Kenya during June. Last week's visit of the Prime Minister, Mrs. Gandhi — she was there to attend a U.N. conference on energy—has led to more meaningful exchanges covering a wider area than trade and industry. Trade between the two countries remains somewhat one-sided, as can be seen from the fact that while India exported to Kenya Rs. 32 crores worth of goods in 1979-80, her imports from that country were worth only Rs. 7 crores. This points to the need for India taking in more from Kenya. The trouble is, our staple exports (tea and coffee, for instance) happen to be theirs too.

Revising Petroleum Target Upwards

THE four-year agreement which India signed this week with CFP of France brightens the outlook for off-shore production. The agreement is realistic and straightforward. The French firm will be paid for its services to ONGC for stepping up crude production in Bombay High and associeted off-shore areas (around $ 50 million). The absence of any production-sharing arrangement should silence the critics who have been hinting at a possible "sell-out".

To be sure, there is no commitment on the part of CFP (Campagnie Francaise des Petroles) to reach any pre-determined target but the Petroleum Ministry hopes that, with the assistance of CFP, crude production can be stepped up from the present level of around 8 million tonnes to 19 million tonnes by the end of the Sixth Plan, that is, by 1985. This is higher than the plan target of 13.2 million tonnes (for off-shore production) by some 6 million tonnes. If all goes well, the annual rate of off-shore production will have gone up to 22 million tonnes in the beginning of the Seventh Plan. The plan is to not only to up-date and rationalise production methods but also to pump out more oil through secondary recovery techniques.

Quite apart from this joint endeavour, there is the prospect of developing gas fields already discovered in this region. When developed, production of gas is expected to reach a level of 20 million cubic metres a day— enough to provide feed stock for ten new major fertiliser units and two petrochemical units that can be located close to the West Coast. Exploration in other promising areas like the Godavari basin and the Andamans in the Bay of Bengal depends on the extent of foreign participation which India is seeking. Although India has agreed to the principle of production-sharing, not many foreign firms have evinced interest. Even among the 35 firms which have been short-listed for serious negotiations, very few have come forward to sign exploration contracts. Some of the short-listed firms are reported to have opposed the stipulation that they should hand over the field to ONGG five years after the discovery of oil. They are insisting on a longer transitional period. They also expect more liberal tax concessions than those now offered by the Government. With demand projected at 62 million tonnes by 1989-90, the need to make an all-out effort to explore new areas and produce more oil is keenly felt. To what extent ONGC's programmes will be carried out within the Sixth Plan allocation of Rs. 4,300 crores for the petroleum sector remains to be seen.

Exodus From Hinduism: An Aberration?

By **K. N. S.**

THE mass conversions of Harijans into the Islamic religion, reported mainly from a few places in Tamil Nadu, have shaken the stalwarts of the Hindu religion out of their complacency. This is not the first time that conversion of Harijans from Hinduism into some other religion has taken place. Dr. B. R. Ambedkar, the unquestioned leader of Harijans, made them think along these lines by himself becoming a Buddhist and by encouraging some of his followers to adopt this course. How many Harijans became Buddhists as a result of the late Dr. Ambedkar's crusade, I am not sure. At any rate, the movement (from Hinduism to Buddism) did not assume the proportions of an avalanche either during Dr. Ambedkar's life time or later.

Very strong compulsions should exist for a change-over of one's religion; and for the person who wishes to become a convert, the religion which receives him should offer something better—something which he does not find in the religion which he wants to discard. It is from these two stand-points that one should view the recent wave of conversions from an inferior status in the Hindu religion to an equal status in Islam.

The simplest of the explanations offered by columnists and editorial writers is that the Harijans who resorted to this course (conversion to Islam) did so because (a) the safeguards provided in the Indian Constitution remain virtually ineffective and (b) the persecution by caste Hindus has increased in the recent years. These explanations are certainly valid. The ban on untouchability and punishment for violations of this ban in myriad ways are all covered under the omnibus legislation, the Protection of Civil Rights Act, 1955. Although the Act is quite comprehensive, it remains a dead letter because, as the Harijans will readily point out, it is administered by caste Hindus who have not shed their age-old prejudices.

The simmering discontent among Harijans is reflected in the Dalit Panther movement, to cite just one example. I consider the conversions that have taken place in Meenakshipuram and other places in Tamil Nadu as a form of token protest — certainly not the beginning of a new wave. The Harijans have a right to ask: Why should we remain in a system which treats us as second class citizens—a system which turns a blind eye to acts of arson and mass rape committed by caste Hindus? When such questions assume emotional overtones, it is difficult for the leaders of the Hindu community to provide any cogent and convincing answers. In his time, Narayana Guru, in Kerala, saw the emerging social conflict in the true perspective and gave the untouchables a sense of direction. But, alas, we do not have, among the Harijans, leaders of the stature and saintly disposition of Narayana Guru. Even a leader cast in Dr. Ambedkar's mould would have provided a leadership which eschews extremes.

A change of religion, in my view, does not offer any advantage to the person who undergoes conversion. I would not have made this assertion a century ago when religion was less irrelevant that it is today. During the colonial rule, the Christian missionaries were able to convert a good number of Hindus — mostly those outside the castes — into their religion through the offer of education, free medical facilities and possibly an assured job in the Government. That kind of evangelism has virtually vanished and the conversions that take place now do not attract much publicity. Today, the urge to win converts is less than it was a century ago.

Islam's position is no different but I must add a rider here. Middle East, which remains the fountain-head of Islamic resurgence, has acquired new clout in the shape of bulging oil revenues. There is a disposition, among the rulers in these states — Saudi Arabia, in particular — to lend support to their co-religionists in other countries. This, and the influence of the neighbouring country, Pakistan, on the thinking of the Muslims in India, are factors which need to be taken into account while analysing the causes of the present conversion wave. But, as I said a moment earlier, the long-term trend is for religion to lose its relevance. Even granting that gulf money is playing a marginal role in the recent conversions, I do not anticipate the change-over on any numerically significant scale.

Of the 68 crores of people that inhabit this country, the Hindus may number some 55 crores. The Harijans, among them, may well number some 10 crores. I do not have the break up of the 1981 census figures but the numbers I have mentioned may not be wide of the mark. In theory, if all the 10 crore Harijans join the Muslims who may number some 8 crores—again a guesstimate—then it will be a case of 45 crore caste Hindus pitted against 18 crore Muslims. Even if all the other minorities join together, they will not be able to reduce the Hindus into a minority. But I am not interested in this numbers game. I consider the Tamil Nadu conversions as the greatest moral challenge that has ever confronted the Hindu society. How it will face this challenge remains a question-mark.

Glass House Gossip

THE people in Karnataka are rejoicing over the exit of C.M. Ibrahim from the Gundu Rao cabinet. I am almost tempted to join in this rejoicing. But I am a-political and my involvement in politics is confined to writing about political happenings. They say: use a long spoon to sup with the devil. In my case, the question doesn't arise at all since I take care not to share the same table with the blessed lot. Ibrahim is an intelligent man. He always knew which side of his bread was buttered. He perfected turn-coat-ism into a fine art. From Congress (O) to Janata to Congress (I), it was a perfect U-turn. He went to jail when most opposition politicians were herded into prisons during the emergency. Ibrahim had the gift of the gab. And the Janata Party found him useful during the 1977 elections. He would quote from *Bhagavad Gita* and *Upanishads* with the same ease with which he could quote from *Koran*. Little did his political mentors know, at that time, that his secularism was just skin deep.

The quick-change artist that Ibrahim was, it didn't take him long to change over to Mrs. Gandhi's Congress (I) once he saw no future for the Janata conglomirate. A person who had used the vilest language to run down Mrs. Gandhi became her admirer overnight. How he wormed his way into the Gundu Rao cabinet, through the good offices of his friend, F. M. Khan, is recent history. I do not also wish to recount the scandals he was allegedly involved in. Enough is written about these scandals and non-scandals in the daily newspapers of the country — the flour mill licence affair, the Rolex watch furore, the alleged illegal confinement of Padmakka and so on. If, as Ibrahim thinks, he is more sinned against than sinning, he should have an opportunity to vindicate himself.

Meanwhile, he should refrain from making wild allegations against his tormentors. It is utterly foolish of him to proclaim that it is (the attempt to oust him from the Government) a plot hatched by Hindu chauvinists. I do concede— and every body knows it — that Shimoga and Bhadravati are RSS strongholds. But is Ibrahim in a position to swear by Allah that his brothers were innocent milk sops? Even a child in Bhadravati knows that they were a law unto themselves until nemesis overtook them. The Hindu chauvinist plot theory does not hold water since another member of the Gundu Rao cabinet, Renuka Rajendran, had to quit for a lesser offence. If the Ibrahim ouster is any indication of the shape of things to come, then one can say that Mrs. Gandhi is probably on the look out for a replacement for Gundu Rao. The new leader can be chosen either through the device of holding a mid-term poll or, if the Prime Minister so wills, by naming another person for the job straightaway. After all that has happened in the recent weeks, does Gundu Rao still think that Madame will hand over the keys to him and go to sleep ?

☐ ☐ ☐

WITH all my sympathy for the Polish people's struggle to become masters of their own destiny, I cannot resist feeling that the pointless demonstrations they are staging, under the umbrella of Solidarity, are not calculated to serve the cause which is dear to them. After last month's special congress of the Polish Communist Party in which the rank and file took care not to identify too closely with the Moscow-line, I thought that there would be some kind of rapproachement between Lech Walesa's Solidarity and the Government headed by Stanislaw Kania. This has not happened. The country is witnessing a new wave of strikes and demonstrations against shortages of all kinds of consumer goods and the threatened price hike of the order of 400 per cent. But Lech Walesa and his colleagues who lead the 12-million member Solidarity know that strikes are hardly caclulated to improving the situation on the economic front.

Poland is in a terrible mess, what with the 15 per cent fall in national income and the accumulated debt of $ 27 billion to foreign creditors. Poland badly needs a breathing space during which time it can step up agricultural and industrial production. In the present bizarre situation, one can contemplate two scenarios. Scenario I comprises a further deterioration in the situation caused by prolonged strikes and the party boss Kania inviting the Russians to help him out, as Babrak Karmal did in Afghanistan. But the Kremlin may not be too keen on responding favourably to Kania's distress call.

The polish people are too articulate politically to be cowed down by a show of force. I know, there are strong ideological reasons for keeping Poland within the communist system but the price that the Russians may have to pay for this is likely to be quite high in terms of resources that need to be pumped into Poland to keep the Polish economy ticking. Scenario II consists of the Solidarity queering the pitch for a Western intervention. A prolonged strike by the Solidarity unions will almost certainly bring the working of the Kania-led Communist Government to a stand still. Assuming that Russia will refrain from doing what she did in Czechoslovakia and Hungary in the previous decades, the Western alliance will be tempted to prop up a non-communist regime headed, probably, by Lech Walesa.

Scenerio II, needless to add, has dangerous possibilities which do not exclude a clash between the West and the Russians. I am one of those who believe that if the Russian "empire" in eastern Europe is destined to collapse — this seems to be a historical necessity—it should collapse as a result of the internal contradictions of the Communist system. Any premature attempt to force that denouement is fraught with grave consequences. If the Russians can commit aggression on Afghanistan and stay there for well over an year, nothing prevents them from coming to the rescue of a regime with which they have ideological affinity.

□ □ □

ANOTHER country which seems to be thriving on organised chaos is Iran where the mullahs are facing a leftist revolt. A sign of the weakening hold of the Islamic Republican Party is the escape of the ousted President, Bani-Sadr, to France inspite of the determined efforts of Khomeini's fanatical followers to prevent it. Continued executions of the regime's opponents have not frightened the parties of the left, like the Mojahedin-e-Khalq, from carrying on its guerrilla activities. The bombing outrage at the IRP headquarters in Teheran in which the party's strong man, Ayotollah Beheshti, and 60 others were killed cannot be considered as an isolated incident.

From his exile in Paris, Bani-Sadr (sans his famed moustache) is directing this movement to overthrow the Khomeini regime. Fears that what happened to the U.S. Embassy staff in Teheran (they were held hostage for an agonisingly long period) may happen to the French embassy staff now may not come true—they will have returned to Paris by the time these lines are seen in print—but at this writing, one of the Ayatollahs has actually held out such a threat in retaliation for France's refusal to extradite Bani-Sadr. All said and done, Khomeini has a soft corner for France. It was from Paris that he successfully organised the revolt against Reza Pahalvi. The 20-year-old son of the late Shah, I hear, is waiting in the wings to stake a claim for the Peacock Throne but I do not see any possibility of the Pahalvi dynasty being invited back to Iran. To repeat what I said in an earlier piece, the Army will probably step in when the law and order situaiton deteriorates further.

□ □ □

Predictably, Antualy's proposal (is it a trial balloon, by the way?) to regulate the influx into Bombay through the issuance of "work permits" has aroused fierce protests from the intellectuals who see in it a desire to trample on fundamental rights. Under our Constitution, Indians are free to move freely in any part of the country, seek job and settle down anywhere. Chief Minister Antulay may however retort that the proposed "work permit" system does not in any way infringe on the citizen's fundamental rights. If you allow yourself to be frisked at the airports, in the interest of the safety of the plane in which you travel, you can as well get a card for yourself— a card which gives details of where you work and live. I am just wondering whose brainwave it is— Antulay's or Bal Thackeray's or Rashmi Mayur's?

Be that as it may, the idea is a non-starter. While I agree that there should be a check on the influx into the major cities, which are already bursting at the seams, I oppose Antulay's proposal which has a remote resemblance to the system prevailing in South Africa where every non-white should carry a card which defines his status as a second or third class citizen. If the Government of Maharashtra is keen on preventing the deterioration in the living conditions in Bombay, it can adopt other measures like the imposition of a ban on locating new industries in Greater Bombay, providing incentives to the existing industrial units to move to other places and change the present pattern (more or less) of unidirectional traffic so that the white and the blue collared crowds go to work places located in different areas instead being unloaded, in human waves, at the Churchgate and the VT termini. The deterioration of the services and amenities has something to do with the property developer-politician nexus which has led to the creation, for example, of a concrete jungle at Nariman Point.

I can visualise cities witnessing orderly growth even up to the seemingly unacceptable limit of one crore provided they are planned to accommodate a growth of that order. It is unplanned growth that I object to. Orderly growth of cities is possible only if the local government — corporations in the case of large cities— exercise full control over every aspect of development and not merely the function of garbage disposal. But Bombay, like Rome, was not built in a day. It epitomises the errors— compounded over generations— of town planners. For the persent, I see no hope for the Bombayites. They should become converts to the *chalta hai* philosophy.

— **Plebeian**

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

— *Circulation Manager*

special articles

Developing Countries and Multinationals: Some Areas of Conflict

By **V. C. Sinha** *

The role of multinationals in fostering development in LDCs has been the subject of keen controversy among economists and policy makers. While empirical evidence suggests that if they are properly regulated and if they attune their functioning to the needs of the host country, they can help the growth process. At the same time, the experience of many developing countries shows that, allowed a free rein, they can distort the growth pattern and endanger stability. In this article, the author discusses these issues.

MULTINATIONAL Corporations (MNCs), also called Transnational Corporations (TNCs), are giant international business concerns which operate simultaneously from several countries and have world-wide business, financial as well as political interests. In a study entitled, "Multinational Corporations in World Development", the United Nations defined multinational corporations as "enterprises which control assets – factories, mines, sales office and the like — in two or more countries". While this may be statistically a convenient definition, it makes the study of multinational corporation identical with the discussion of foreign direct investment. The distinction between foreign investment and multinational corporation may not be obvious, but there are basic differences. Multinational Corporation are multinational in operation and not only in ownership and management. The control can be exercised not necessarily through capital ownership but even without it. The study of multinational corporation, therefore, should not be confined to foreign branches and subsidiaries, it should be expanded to include foreign enterprises in other forms of operation.

Most of the MNCs at present belong to the four major exporting countries — U.S.A., U.K., France and West Germany. However, the United States accounts for the largest number of MNCs in the world. The total output of the multinationals has been estimated to be growing at the rate of 10 per cent per annum. At this rate, by 2,000 A. D., 200 to 300 of these global giants will account for 50 per cent of the world output.

Since the early sixties, the multinational corporations started expanding their operations in developing countries. But the role of MNCs in the developing countries has been a matter of intense debate among the academicans as well as the framers of economic policies. Hence an attempt is made in this paper to present a balance sheet of the virtues and vices, benefits and losses accruing from MNCs to developing economics.

The multinational corporations have penetrated into the key branches of the economy of most of the developing countries and occupy dominating positions there. But, in recent years there has been a growing concern over the operation of MNCs in the developing countries. It is alleged that these corporations have been exploiting developing countries and damaging their economics by strengthening and increasing monopoly control of multinationals on key sectors of the economy. In fact, their operations have also been interpreted as designed to perpetuate new forms of neo-colonialism. These multinational corporations have accentuated economic disparities, meddled and interfered in local politics and resorted to unethical practices, which have had an adverse impact on the society as a whole.

The reasons why MNCs have come into world-wide attention was the exposure of an attempt by the International Telephone and Telegraph Company (ITTC) in the overthrow of the Lockheed Aircraft Corporation which led to the fall of the Government in Japan. These incidents have created a fear among the developing nations and an apprehension about the financial power of the MNCs. Before we discuss the relevance of MNCs for developing countries, it would be much better to analyse the basic arguments which are usually given in favour of MNCs. It is advocated that the host countries benefit from MNCs through their:

(a) impact on balance of payments;

(b) higher level of output, employment and trade and

(c) transfer of superior technology from the other countries.

These advantages, however, have to be seen in the context of fears and possible disadvantages.

Balance of Payments

The multinational corporations bring foreign resources for investment. But in most of the cases, the inflow of foreign investment falls far short of the outflow of foreign exchange by way of dividends and profits to the mother country and thus proves a drain on the foreign exchange resources of the host country. From 1966

---

* Dr. V. C. Sinha teaches in the School of Studies in Business Economics, A.P.S. University Rewa, (M.P.). 486 003.

to 1974, there was a net outflow of direct U.S. capital to developing countries amounting to $ 1,028 million annually while $ 3,836 million were withdrawn annually in the form of income. The sum would go up further if withdrawals in the form of royalties, fees and overpricing of intermediate goods were added.[1] In the case of India also, the remittances during 1964-70 were more than 232 per cent of the net inflow of foreign direct investment in subsidiaries.[2]

But on this basis, it cannot be argued that the impact of multinational corporations on the balance of payments of the developing countries is negative. What is important to consider is the role of multinational corporations in the manufactured exports from the developing countries. It is suggested that MNCs have been greatly responsible for the export of manufactured articles for the developing countries. The MNCs operate as manufacturing companies in a number of developing countries and have contributed substantially to the exports of manufacture from these countries. Thus foreign firms contributed over 50 per cent of Singapore exports of manufacture of 1971, over 30 per cent of export of manufacture from both Argentina in 1969 and Columbia for 1970, over 20 per cent of such export from Taiwan and over 15 per cent of such export from South Korea in 1971. This is mostly on account of the system of vertical integration followed by MNCs. In case of India also, the exports from the subsidiaries were found to be around one-third of the inputs needed by them [3]

The role of multinational corporation in the manufactured exports from developing countries has been highly overplayed. The competitive advantage that multinational corporation enjoys – in terms of marketing and production know-how may not be such as to result in a better export performance than that of local firms. The trade within the vertically intergrated multinational system leaves greater scope for transfer pricing and other restrictive practices that limit the net foreign exchange gain to the host country. These MNCs adopt restrictive trade practices to keep a hold on foreign markets and to lessen competition in markets. The forms of their restrictive trade practices are classified by Solomon as follows:

> Take-overs of existing firms, through transfer pricing and reverse transfer pricing, allocating non-competitive areas among subsidiaries, limitation on use of technology, intra-firm sales and pricing (particularly in the oligopoly characterized companies)[4].

The report of the UNCTAD reveals that the MNCs generally control most of the exports of primary products of the less developed countries (LDCS). In respect of bauxite and aluminium, six MNCs control 60 per cent of the world production capacity. Further, the investment in the export sector is not widely diversified. In Mexico, 60 per cent of the exports were from the automobile industry[5]. Thus the investment made by the MNCs in the developing countries has functioned in an enclave isolated from the rest of the economy. Like exports, the bulk of the imports of manufactured goods originate with MNCs are often sold on an intra-firm basis at costs higher than the market prices.

Generally, cartel agreements are made to avoid competition and to charge monopoly prices for sold goods and to pay low prices for purchase. The objective of the MNCs in export sector of the host countries is to consolidate their markets to retain their share in the host countries markets, to get over the tariff and non-tariff protections that less developed countries (LDCs) apply to imported goods in the interest of local indutries and to have easy access to raw materials at lowest prices. In view of the above facts we can conclude that the contribution of multinational corporations in manufactured exports is questionable. Hence the recent approach of the Government of India and other developing countries to permit fully-owned subsidiaries of multinational corporation in export industries and export-processing zones need a rethinking.

Output and Employment

It is often claimed that the MNCs can help a developing economy which is in the initial stages of industrialisation by helping to fill the gap pertaining to resources, including foreign exchange and technology. The process of industrialisation can be accelerated and development could be made continuous with the participation of MNCs. Multinational corporations are thus considered to be promoter of income and employment in the developing countries. It has been often said that the injection of investment into the economy by the MNCs generates employment in two stages.

First, it creates primary employment for workers engaged directly in new capital goods projects. Secondly, their spending gives rise to secondary employment in the industries producing consumer goods on the one hand and intermediate goods required for the capital and consumer goods on the other. Thus, ultimately, the indirect or secondary employment generated by the investment would be many times the volume of direct or primary employment initially created by it. Judged from this angle, the long term effect of MNCs investment on employment in the host country should be considerable. But this is not true. Generally, the MNC demands labour which is highly skilled and experienced. Paradoxically, the skilled labour in underdeveloped countries is fully employed, or there is even a scarcity of this type of labour. Under the circumstances, the MNC competes with the indigenous firms for the scarce skilled labour and quite often draws it from the latter by offering a wage level higher than that paid by the latter. In effect, the indigenous firms turn out to be the training places for MNCs.[6] Even if multinational corporations lead to a greater rate of growth there still remains the question of the effects of their operation on the distribution of income between nations. They have accentuated economic disparities. By importing sophisticated equipment from the country of origin, or from their associates, they have been responsible for retarding the pace of indigenous development and despite their huge financial resources.

Thus the employment opportunities for local people generated by these corporations are very limited.

They do offer high rates of wages apart from attractive fringe benefits, to their employees. This tends to create an elite group within the local labour force, which becomes the root cause of internal social tension. A UN document sums up:

> The ostentatious living styles of foreign personnel as compared with those of domestic employees are a source of both envy and resentment. Styles of management directed towards efficiency but insensitive to local cultural values, may appear to people in the host country as arrogant and dehumanizing[7].

Transfer of Technology

Transfer of technology has been the most perusasive of the reasons given in support of allowing private foreign companies to operate in developing countries. They are backward and so, need modern technology, the argument runs. Harry G. Jhonson[8] in his *Technology and Economic Interdependence* pointed out that diffusion of technology and training people in modern management skills is claimed to be the advantage to the developing countries. At present, developing countries are virtually dependent on the MNCs to meet their technological and capital needs. This is confirmed by the study of Vaties[9] on 'The activities and practices of foreign firms operating in five Andean pact countries', which has pointed out that a major concentration of patents in these countries are owned by these MNCs. Developing countries generally adopt the following ways for transfer of technology:

(1) inviting MNCs to set up a subsidiary or branch plant in local economy;

(2) MNCs are asked to form a new Company in partnership with a firm, i. e. by joint ventures;

(3) by offering equity interest to MNCs in an existing local firm for sale of technology;

(4) by getting licence from MNC for an existing local firm.

However, various combinations of the above are found to operate. Effectiveness of technology transfer by different methods depends on the differences in the nature of sophistication of technology to be transferred, nature and the depth of technological capability of borrowing countries etc.

Technological contributions of the MNCs to the developing countries are very limited. The key technologies for the developing countries are different from the key technologies of the advanced countries. The key technologies required for the developing countries could be obtained from sources other than multinational firms through technical assistance from Government or the import of capital goods. Robert Solow[10], an eminent economist, in his article, "The capacity to Assimilate Advance Technology", maintains that many of the advanced technologies cannot be transferred to the developing countries. The basic reason is that the advanced technologies evolve a different environment and cater to the needs of the countries that socially, economically and geographically significantly different from the developing countries. These dissimilarities sometimes account for their uneconomic and technically retrogressive use".

There are no doubt certain sophisticated technologies that are controlled by multinational firms which are key to the less developed countries as well. The pharmaceutical products in relation to health programme, communication technology in relation to broadcasting and machineries in relation to Agriculture etc. are cases in point. But production technique based on economies of scale and capital intensive method may go against the interest of the developing countries. It could directly clash with the problem of unemployment and rural poverty prevailing in such economics. Besides, many of the technologies like those related to tropical agriculture, public utilities and public works are relatively old ones, often not requiring sophisticated skills only multinationals have. The key technologies required for the countries could be obtained from sources other than multinational firms through indigenous development, through technical assistance from Government or the import of capital goods.

Normally, MNCs prefer to invest in consumer goods industries and hence the technological complexities involved are small. Many of such consumer goods can easily be produced without advanced or imported technology and the cause of job creation would better be served by reserving some manufacturing activities for small and tiny sectors of the economy which are really labour intensive units in the developing countries.

The costs of imported technology are heavy indeed. In a study by the United Nations Conference on Trade and Development (UNCTAD) it has been found that poor countries used up 1,500 million dollars of their foreign exchange in 1968 to pay for imported technology from developed countries. In 1970, the figure rose to 9,000 million dollars. Surendra J. Patel itemised the costs which the underdeveloped countries have to bear in the name of Transfer of Technology from the West. His arrangements of costs were as follows :

Direct Costs : Direct costs of technical development consist of payment for the right to use patents, licences, processes, know-how, trade marks and for technical services needed at all levels, from pre–investment phase to full operation of the enterprise.

Indirect Costs : (a) overpricing of intermediate product and equipment; (b) profits on capitalisation of know-how. (c) a portion of repatriated profits of the wholly owned subsidiaries (d) price mark ups for technology included in the cost of imported capital goods and equipment.

Other Costs : The costs result from (a) limitations imposed in transfer arrangements : (b) the transfer of wrong or inappropriate technology; (c) The non-transfer of technology; (d) The long range influence of imported technology on deflecting national policies away from a sound development of local technological capabilities.

Besides, the MNCs tend to adhere to techniques already used by them and do not attempt to look for appropriate indigenous alternatives for not only does this avoid duplication of efforts required for developing the techniques but provides a captive market for components produced by the parent organization.

The present state of affairs is well explaned by a spokesman for LDCs. "We need technology and capital from outside which is being channelled through transnational corporations. Like it nor not, this is a fact of life.[12]" In both receipts and payments of the balance of payments for technology, the DCs dominates the scene. However, MNCs of the U. S. A. are the main suppliers and purchasers of technology. For the LDCs, this is a one way affair—simply a purchaser of minor significance where overall dominance of the U. S. A. is maintained. Most of the patents granted in the LDCs are of foreign origins. To achieve their narrow corporate interest, MNCs are interested in localisation of new processes or new product discovery and mostly in product differentiation and for that matter are engaged in organised R and D expenditure with short horizon, in quick-yielding riskless product oriented innovations mainly for rich market of the DCs. The concentration of R and D expenditure in few big MNCs and consequent dependence of LDCs on MNCs for R & D is explained by the risk factor which can be minimised under private enterprise system by big corporations "with many products going on.[13]"

Generally, technology supplied to LDCs is either too sophisticated to adopt or too obsolete by international standard to reduce the costs of products to compete in Western markets. On the basis of the large-scale sale of second hand technology and complete manufacturing units, one tries to give a plausible explanation by suggesting that "technology tends to filter down across the layers of economics, beginning at the top, then into less and less developed economics in a descending order" and "technological progress in the metropolis gets a big impetus as the overseas market for obsolete machine open up[14]". Most of this progress in product innovations suitable for affluent societies can be found commercially profitable only for small group of elite people in LDCs. Our experience with Indian economy suggests some element of both in the agreement[15].

Conclusion

It is clear from the foregoing discussion that the role of MNCs in the case of developing countries does not appear to be as beneficial to the developing countries as it is for the advanced countries. This is so both with regard to their effect on balance of payments as also with regard to transfer of technology. Some suggestions could be made to protect the economic and political interests of developing host countries.

(1) The policy on MNCs in the developing countries should be selective and the criteria of selectivity ought to be clearer and more stable and applied more objectively.

(2) The rules and regulations governing the remittances of foreign exchange, profits, dividends repatriation of capital etc. should be implemented vigorously without any inhibition. The pricing and costing policies of the multinations should be carefully scrutinised.

(3) The production of non-priority goods and services by MNCs should be banned and ceiling should be fixed on their remittances abroad.

(4) There is a marked shift towards agriculture and rural development in developing countries like India. The governments of these countries should invite foreigh companies which have technology relevant to rural development.

(5) As far as possible, technical and capital collaboration agreements with the MNCs should be entered into by the governments of the developing countries and not by some vested interest of the private sector agencies in their countries.

(6) MNCs should be asked to spend a certain percentage of their income in the host countries on research and development activities.

(7) Equity participation of more than 40 per cent by foreign companies should only be permitted in case of export oriented industries or core sector industries.

(8) The Government should carefully demarcate the sectors in which foreign capital is desirable. MNCs do have a positive role in certain fields like power generation, steel, aluminium, petroleum, cement, etc. but they should not be allowed to proliferate in consumer goods needed by the upper strata of the Indian society. Besides this, the activities of multinationals which increase our dependence on foreigners and drain away our resources should be restricted.

(9) A committee should be appointed to examine the working of MNCs and to suggest such measures which may be beneficial to the national economy.

(10) Foreign capital participation in those areas where indigenous technology has fully developed should be banned.

In the context of economic development, it can be said the planners need not display an inferiority complex about foreign capital. Russia invited Fiat to build cars and Yugoslavia invited foreign investors to provide upto 50 per cent of capital in the Yugoslavia companies. Even China was prepared to have a steel mill built by a West German firm. The governments of LDC need not, therefore, take a hostile attitude to the foreign capital on ideological grounds. The policy of squeezing out MNCs will not succeed unless countervailing measures are taken at the national level to boost indigenous industrial production, restrict dependence on foreign technology and arrest inflationary tendencies.

It will not be in the interest of the developing countries to seek a blanket ban on the lawful activities of these corporations. The need of the hour is to regulate their activities in keeping with the national interests to the host countries. It is really heartening that the image of MNCs is constantly changing. The Multinational Corporations no longer represent merely traditional private capitalist corporations. Even the Soviet Union and other Socialist countries are encouraging the activities of their own industrial giants. Several Soviet enterprises have collaboration agreements in Scandinavia, India, Turkey, Ethipoia, Cub and Nigeria, etc. A Rumanian tractor assembly plant in Canada exports its products to the United States. Several East European Countries are engaged in establishing heavy industries in the developing countries.

The multinationals are also undergoing a kind of metamorphosis. There is an even greater realisation on their part of the desirability of conforming to a voluntary code of good behaviours to act as lawful citizens of the countries where they operate especially in the Third World countries. "MNCs now respond more clearly to host country interests because those countries have achieved a stronger position *vis-a-vis* these firms".[16] In such a situation, home country may apply the tools to counter the efforts that go beyond the reasonable norms and would lead to investment war. Further, it is not as if developing countries by themselves are helpless. They can, through concerted action dictate their own terms to the multinational corporations. The manner in which the member states of the Organisation of Petroleum Exporting Countries (OPEC), especially Iraq, have handled the foreign oil companies through nationalisation is quite revealing.

REFERENCES

1. Mitra. P. K. : "Reflections on International Economic Cooperation" Bangladesh Development Studies, Vol. V. No. 4 Oct. 1977, p. 379. See also U. S. Department of Commerce, Survey of Current Business, Oct. 1975.

2. Reserve Bank of India Bulletin, June, 1974.

3. Mallom, Cransford : "Transfer Pricing in International Transactions", Multinational Board Economic Intelligence Unit, London No. 3, 1974, p. 3.

4. Solomon, Anthony, M. : International Control of Investment in the trade sector in International Contiol of Investment.

5. *The Economic Times*, May 22, 1978.

6. Gowda, Srinivasa, M. V. : 'Technology of Multinational Enterprises and Labour Absorption in Developing Countries, in Indian Economic Journal Vol. 26, 1978, p. 170.

7. U. N. Document St/ECA/190 MNC in World Development.

8. Harry, G. Johnson : 'Technology and Economic Interdependence.

9. Vaties : Activities and Practices of Foreign Firms operation in Andean Pact Countries.

10. Rober Solow : The capacity to assimilate Advance Technology American Economic Review, 1966.

11. Mainstream : Republic Day, 1975, article by Shri Surendra J. Patel.

12. Quoted in the Business Standard, July, 4, 1978, the Chairman of the U. N. Sponsored Conference on TNCs held in Kualalumpur, June, 8th 1978.

13. A. Arrow. : Economic Welfare and Allocation of Resources for Invention" in Readings in Industrial Economic (Edited by C. K. Rowley), 1972.

14. Sau Ranjit. : "Unequal Exchange, Imperialism, under development", Oxford University Press.

15. Sarkar, P. L. : Transfer of Technology to Less Developed countries, the Indian Economic Journal, Vol. 26, 1978, p. 148.

16. Bergsten, C. : Fred "A New Tug of War over Multinational Corporations in 'Span' Monthly of the United States Information Service, New Delhi, April, 1976.

The Karur Vysya Bank Limited

Registered Office :
JAWAHAR BAZAAR, KARUR 639001

ABRIDGED BALANCE SHEET AS
AT 31st DECEMBER 1980

1979	CAPITAL & LIABILITIES		1980
Rs.			Rs.
24,00,390	1. Paid Up Capital		29,98,950
76,688	2. Calls in advance		....
61,18,844	3. Reserve Fund and other Reserves		70,62,079
57,21,83,002	4. Deposits and other accounts		70,54,98,856
1,58,17,345	5. Borrowings from Banks, Agents etc.		2,20,36,537
97,05,166	6. Bills payable		1,29,65,774
3,46,14,410	7. Bills for collection (as per contra)		3,41,68,277
3,22,43,222	8. Other Liabilities		3,48,01,270
1,15,94,409	9. Acceptances, Endorsements and other obligations (as per contra)		5,05,39,015
	10. Profit:	14,18,942	
	Less: Appropriations:		
	Statutory Reserve	6,40,000	
3,07,102	Other Reserves	3,29,200	4,49,742
68,50,60,578			87,05,20,500

1979	PROPERTY AND ASSETS	1980
Rs.		Rs.
7,85,23,595	1. Cash in hand and with RBI and SBI	12,06,96,257
2,18,62,410	2. Balances with other banks	3,49,83,417
15,60,80,712	3. Investments at cost	17,59,23,923
35,64,55,691	4. Advances	41,90,01,447
3,46,14,410	5. Bills for collection (as per contra)	3,41,68,277
1,15,94,409	6. Constituents' Liabilities for Acceptances, Endorsements, etc. (as per contra)	5,05,39,015
19,95,143	7. Premises	22,81,619
28,46,378	8. Furniture and Fixtures	35,91,600
2,10,87,830	9. Other Assets	2,93,34,945
68,50,60,578		87,05,20,500

World Development Report Highlights Resilience of Indian Economy

GNP grew by an average 3.4 per cent a year in 1964-73. It then accelerated to 4.3 per cent a year in 1974-79, despite the sharp rise in oil prices. The considerable achievement can be attributed to both short and long-term factors. The most significant change was in agriculture. In the past four years, India has imported hardly any foodgrains and built its stocks up to unprecedented levels. As a result, India was able to manage the consequences of a severe drought in 1979 without resorting to significant foodgrain imports. Over the 1970s as a whole, foodgrain production rose at an average of almost 3 per cent a year compared with a population growth of 2.2 per cent.

While the weather is still a major factor in Indian agriculture, the spread of irrigation and modern farming techniques has provided greater security. So far, the biggest difference has occurred in wheat farming in the northern states of Punjab, Haryana, Uttar Pradesh and spreading eastward into West Bengal but fertilizer use and high-yielding varieties of seeds are starting to affect rice as well and this has particular relevance for some of the poorest states in the east and south of the country. By virtually ending foodgrain imports, India has saved substantial amounts of foreign exchange, helping it to pay for more expensive oil without curbing other imports. It also received the benefits of:

Migrants' remittances. In the mid-1970s, the number of Indian workers in the Gulf states increased considerably. The annual remittances rose from less than $ 250 million in 1974 to an estimated $2.4 billion in 1980. The combination of increased remittances and savings on grain imports allowed India to run a current account surplus in the three years, 1976-77 to 1978-79. As a result, India's foreign exchange reserves rose to a peak of over $7 billion in 1979. By 1977 the Government was able to take advantage of this situation by relaxing some import restrictions on industry.

Industry. India's policy of import substitution has produced a diversified industrial base. Investment has risen substantially and has been financed by domestic savings for most of the past 20 years. Yet in industry at least, extra investment has not produced more rapid growth. Since the mid-1980s, industrial growth has slowed. This can be attributed partly to a sluggish rise in domestic demand and the fact that Indian industry has benefited little from the scale economies of exporting to world markets. In addition, industrial licensing has restricted the entry of new firms into some industries and, in others, limited the expansion of existing firms. But a more significant cause has been supply constraints at home.

Infrastructure. During the 1970s power shortages have become chronic. They are less the result of inadequate capacity than of the poor performance of existing capacity, itself due to input shortages compounded by maintenance and management failures. On Government estimates, electricity shortfalls averaged 12 per cent a year between 1975 and 1980. As a direct result, GDP may have been cut by 2 per cent a year.

The power industry has also been hit by shortages of coal. In the three years, 1977-78 to 1979-80, coal production stagnated although it picked up again in 1980-81. Constraints on railway operation through such factors as labour disputes and power shortages have also restricted the movement of coal that was produced. Failings in these three infrastructural cornerstones—coal, power and transport—have all been interconnected.

Official policy aims to correct all these domestic constraints. Licensing requirements have been eased, allowing companies in core sectors to expand their capacity by 5 per cent a year for five years. Export production has been exempted from licensing restrictions for all units, while units exporting all their output wil be exempt from all import control and duties, will receive favourable tax treatment and will not be subject to prevailing laws on foreign participation. As for infrastructure, the Sixth Plan (running up to 1985) provides for much increased investment in coal, power and railways.

In the short term, these changes can do little to ease the scarcity of foreign exchange that has developed in 1980 and 1981. Almost 45 per cent of India's import bill in 1980-81 was accounted for by oil. Migrant remittances are unlikely to grow as rapidly as they did in the 1970s. Nor is aid, which played an important role in cushioning the balance of payment after the 1973-74 oil-price increases. India is therefore facing a more demanding adjustment than before. Nevertheless, if it continues its agricultural progress, adopts more outward-looking trade policies, improve the infrastructural support for its industry, and continues to receive external support for its development effort, India should be able to restore its external position without seriously slowing down its growth.

A Critique of Sixth Five-Year Plan

By **Francis Cherunilam** *

The Sixth Five Year Plan, which was approved by the National Development Council in February this year, is in its second year. While the plan has several redeeming features, its success is rendered doubtful by three factors, namely, the continuing double digit inflation, the widening balance of payments gap and the growth of population at a rate faster than is assumed by the planners. In this article, the author takes a close look at these problems and wonders how the planners will succeed in grasping the nettle of resource mobilisation.

THE final draft of the Sixth Five-Year Plan, which commenced in 1980, was approved by the National Development Council in February 1981. The proceedings of the NDC that met to discuss, debate and approve the plan were typical of the present political style in the country. The Marxist Chief Ministers of Kerala, West Bengal and Tripura severly criticised the plan while the remaining members of the Council lent their approval without any serious debate or discussion. The preparation of the plan was done by the Planning Commission in record time and the final draft contains a new chapter on policy suggestions. The major objectives of the Sixth Plan are:

i) a significant step up in the rate of growth of the economy, the promotion of efficiency in the use of resources and improved productivity;

ii) strengthening the impulses of modernisation for the achievement of economic and technological self-reliance;

iii) a progressive reduction in the incidence of poverty and unemployment;

iv) a speedy development of indigenous sources of energy, with proper emphasis on conservation of and efficiency in energy use;

v) improving the quality of the life of the people in general with special reference to the economically and socially handicapped population, through a minimum needs programme whose coverage is so designed as to ensure that all parts of the country attain within a prescribed period nationally accepted standards;

vi) strengthening the redistributive bias of public policies and services in favour of the poor, contributing to a reduction in inequalities of income and wealth;

vii) a progressive reduction in regional inequalities in the face of development and in the diffusion of technological benefits;

viii) promoting polices for controlling the growth of population through voluntary acceptance of the small family norms;

ix) bringing about harmony between the short and the long term-goals of development by promoting the protection and improvement of ecological and environmental assets; and

x) Promoting the active involvement of all sections of the people in the process of development through appropriate education, communication and institutional strategies.

The Sixth Plan aims at raising the gross domestic product by 5.2 per cent and *per capita* income by 3.3 per cent per annum. If this materialises, by 1984-85, the *per capita* income at 1979-80 prices will reach Rs. 1,744 as compared with Rs. 1,488 in the base year (1979-80). An average of 8 to 9 per cent in industrial production has been envisaged for the plan period. Over the plan period, output of saleable steel and aluminium is expected to increase by about 56 per cent, cement by about 89 per cent, nitrogenous fertilizers by 89 per cent and phosphatic fertilizers by 85 per cent.

Electricity generation is targeted to increase by 70 per cent from 112 bill. Kwh. in 1979-80 to 191 bill. kwh. in 1984-85. Output of coal is expected to increase nearly 60 per cent from 104 million tonnes in 1979-80 to 165 million tonnes in 1984-85. The production of food grains has been estimated to achieve a compound growth rate of 3.9 per cent and of oil seeds 5 per cent per annum. The target is to attain 149-154 million tonnes of food grains in 1984-85. Sugar cance production is expected to increase by 60 to 68 per cent over the plan period. Outputs of jute and mesta, and cotton have been projected to achieve an increase of about 13 per cent and 19 per cent respectively between 1979-80 and 1984-85.

In the opening address at the meeting of the National Development Council, on February 13, 1981, the Prime Minister, Mrs. Gandhi, has pointed out that "the plan represents more than just outlays and growth rates. It implies a commitment to the objectives of development, to the rivival and revitalisation of the process of planning after a dark spell". The realism and success of the plan should be judged from the point of how it benefits the lower strata. The Sixth Plan also spells out some targets in human terms.

It has been planned to bring down the percentage of population below the poverty line from 48 as of now to 30 by the end of the Sixth Plan with proper redistributive policies and implementation of grass root programmes. The special assistance to be given to 15 million families in rural areas under the Integrated Rural Development Programme is expected to enable 75 million persons to rise above the poverty line. Similarly, various programmes are expected to enable over six million persons in urban areas to rise above the bread line.

Special emphasis has been given on improving the economic status of the *harijans* and *girijans*, A sum of Rs. 1,070 crores is provided by way of special central assistance to supplement the resources of the States for this purpose. It has been proposed to make a direct attack on the problem of unemployment. Under the National Rural Employment Programme, which has been specifically disigned with this objective, 300 to 400 million man-days of employment will be created every year and this is expected to benefit about 30 million families. The Plan strategy is to increase employment at a rate faster than the growth in the labour force so as to reduce the existing level of unemployment over a period of time. The target is to create additional employment equivalent to over 34 million standard person years over the plan period.

---

* Faculty of Business Administration, University of Mysore, Manasa Gangotri, Mysore-570006.

In the field of elementary education, the objective is to achieve by 1985, 95 per cent enrolment in the age group 6-11 and 50 per cent in the age group 11-14, and by 1990, 100 per cent enrolment in the age group 6-14. This would be supplemented with non-formal education. The target is 100 per cent coverage of adults in the age group 15-35 by 1990 through non-formal education.

Provision of housing assistance to all landless labour households by 1990 has been aimed at. Assistance under this scheme include house site, building materials, drinking water well for a cluster of houses and approach road. During the Sixth Plan period, over 6.8 million additional landless labour households will be provided with house sites and 3.6 million families will be provided with assistance for house construction. Under the programme for environmenal improvement of urban slums, additional 10 million urban slum dwellers will be given assistance to improve their environment. Facilities provided under this scheme include water supply, sewerage, paving of streets, community latrines etc. Areas inhabited by scheduled castes, particularly scavengers, are to get priority. The aim is to achieve 100 per cent coverage of the urban slum population by 1990.

During the Sixth Plan period, about 20,000 villages will be linked to all-weather roads at a cost of Rs. 1,165 crores and safe drinking water will be provided to all the 1.9 lakh problem villages at a cost of Rs. 2,007 crores. The Sixth Plan has been formulated against the background of a perspective, covering a period of 15 years from 1980-81 to 1994-95. This development perspective visualises accelerated progress towards the removal of poverty, generation of gainful employment and technological and economic self-reliance. The Principal indicators for the preferred alternative are shown in Table 1.

The total outlay of the Sixth Plan is placed at Rs. 1,72,210 crores. Of this the public sector outlay amounts to Rs. 97,500 crores and the Private sector outlay Rs. 74,710 crores. In other words, the share of the public sector in the total outlay is about 56.6 per cent and of the private sector 43.4 per cent. In nominal terms, the public sector outlay for the Sixth Plan is about one and half times higher than the respective figure for the Fifth Five Year Plan (1974-79). In real terms, the public sector outlay in the current plan represents an increase of nearly 80 per cent over the Fifth Plan's.

The total public sector outlay of Rs. 97,500 crores is made up of Rs. 47,250 in the Central sector (48.5 per cent) and Rs. 50,250 crores in the States and Union Territories (51.5 per cent). Of the total public sector outlay of Rs 97,500 crores, the investment outlay is Rs. 84,000 crores (86 per cent) and Rs. 13,500 crores represents current outlay. The private sector investment for the plan period has been estimated at Rs. 74,710 crores. The aggregate investment in the Sixth Plan, thus, adds up to Rs. 1,58,710 crores.

The net contribution of foreign resources to the financing of the aggregate investment of Rs. 1,58,710 crores is equivalent to Rs. 9,063 crores, i.e., 5.7 per cent. Thus, more than 94 per cent of the total investment is to be financed out of domestic resources. About 77 per cent of the total domestic resources is to come from private savings and the remaining 23 per

TABLE-1

SELECTED ECONOMIC AND SOCIAL INDICATORS

Sl. No.	Item	1979-80	1984-85	1994–95
1.	Gross Domestic Product (Rs. crores at 1979–80 prices)	97051	125050 (5.2)	213600 (5.5)
2.	Saving as per cent of GDP at market prices	21.24	24.48	27.52
3.	Investment as per cent of GDP at market prices	21.76	25.11	26.92
4,	Population (Millions)	654.1	717.2 (1.86)	843.0 (1.63)
5.	Per capita GDP (Rs)	1484	1744 (3.28)	2534 (3.81
6.	Per capita monthly Consumption (Rs.)	95.62	109.67 (2.79)	151.98 (3,32)
7.	Percentage of people below poverty line	48.44	30.00	8.74
8.	Employment (Million standard person years)	151	185	248
9.	Monthly per capita consumption of foodgrains (Kg).	12.95	14.32 (2.03)	15.50 (0.80)
10.	Monthly per capita consamption of sugar (Kgs).	0.68	0.79 (3.00)	1.15 (3.82)
11.	Monthly per capita consumption of clothing. (meters)	0.85	0.92 (3.00)	1.41 (4.36)
12,	Monthly per capita consumption of Electricity (KWH)	14.27	22.19 (9.23)	39.05 (5.81)
13.	Value added in education per capita (Rs)	20.32	24.72 (4·00)	36.60 (4.00)
14.	Life Expectancy (years)	M 52.6 F 51.6	55.1 53.4	60.1 59.8

Note : Figures in brackets represent annual compound growth rates.

cent from public savings. The household sector accounts for more than 90 per cent of the private savings and 70 per cent of the total domestic savings. The corporate sector contributes less than 8 per cent of the private savings and the remaining part by the cooperative sector.

The public savings comprises of savings of Government, public sector non-financial enterprises (including departmental enterprises) and public sector financial enterprises. Public sector non-financial enterprises contribute over 53 per cent of the public savings and 12 per cent of the total domestic savings Government savings account for nearly 40 per cent of the public savings and 9 per cent of the total domestic savings. The remaining part of the public savings is the share of the public sector financial enterprises.

The Sixth Plan envisages additional resource mobilisation of the order of Rs. 21,302 crores. About 58 per cent of it (Rs. 12,290 crores) is to be made by the effort of the Centre and the remaining part (Rs. 9,012 crores) by the States. Of the Centre's share of Rs. 12,290 crores, Rs. 5,140 crores (42 per cent) is expected to be contributed by taxation and Rs. 3,900 crores (32 per cenr) by internal resources of the public sector enterprises. Rs. 3,250 crores (26 per cent) is planned to be obtained by reduction in subsidies.

Table 2 shows the sectoral allocation of the public sector outlay. A comparison with the resource allocation proposed in the Draft Five Year Plan 1978-83 formulated by the Janata Government shows that there is no significant change in the relative shares of the different sectors between the two plans.

In the last three decades, the average annual increase in national income was only about 3.5 per cent and *per capita* income about 1 3 per cent. In the first year of the Sixth Plan the growth in GNP and *per capita* income was quite disappointing. Against this background, the Sixth Plan target of annual growth rate of 5.2 per cent in GNP and 3.3 per cent in *per capita* income appears to be too optimistic.

TABLE-2
SECTORAL ALLOCATION OF PUBLIC SECTOR OUTLAY

Sector	Share (Percentage)
1. Agriculture	5.8
2. Rural Development	5.6
3. Special Area Programmes	1.5
4. Irrigation and Flood Control	12,5
5. Energy	27.2
6. Industry	15.4
7. Transport	12.7
8. Communications and information aud Broadcasting	3,2
9. Science and Technology	0.9
10. Social Services	14.4
11. Others	0.8
Grand Total	100.0

The magnitude of poverty has been increasing, both in absolute and relative terms, from plan to plan. The Approach Paper to the Fifth Plan observed that the absolute number of people below the poverty line on the eve of the Fifth Plan was as large as it was two decades ago. Inspite of the good intention of the planners, to alleviate poverty by a "direct attack", the number of people below the poverty line increased significantly during the course of the Fifth Plan. However, the current plan has the pious objective of bringing down the percentage of population from over 48 per cent to 30 per cent within five years. The plan programmes do not appear to be sufficient and effective enough to achieve such a drastic reduction in poverty.

Inflation is still running well in two digits. This will certainly make the plight of the poor more miserable. According to the plan proposals, nearly 26 per cent of the additional resources will be obtained by the reduction in subsidies. It should be remembered here that if the subsidies on food grains are withdrawn, the price of wheat will rise by 74 paise per kg. and that of rice by 64 paise per kg. This will obviously reduce the consumption of the poor. The reduction or complete elimination of fertiliser subsidy will lead to an increase in the procurement and sale prices of food grains. Thus, there is a conflict between the scheme of additional resource mobilisation and poverty alleviation programmes of the Sixth-Plan.

Apart from the problem in reducing the subsidies, if the target of domestic resource mobilisation is to be achieved, domestic savings should grow from Rs. 23,055 crores in 1979-80 to Rs. 35,870 crores in 1984-85. In other words, savings as a percentage of GDP at market price are expected to increase from 21 2 per cent to 24.5 per cent during this period. This implies that the marginal rate of saving during the Sixth Plan period will reach 33.7 per cent. In the context of the steep rise in prices, this will not be an easy task.

The plan estimate of deficit financing is Rs, 5,000 crores over the five years. But the budget proposals indicate that in the first two years of the plan, deficit financing will exceed Rs. 3,500 crores. Judged from the past trends, it is quite unbelievable that in the last three years of the plan the total deficit financing will not exceed Rs. 1,500 crores. The continuous hike in imported oil prices, the rising cost of foreign capital goods, growing protection in advanced countries, serious inflation within the economy etc. are likely to make the balance of payments problem very serious.

Further, the disturbing developments on our borders and neighbouring countries will compel us to earmark huge sums for defence purposes. Of course, the Planning Commission has stressed the need to improve the efficiency of the public sector enterprises in the Centre and the States, impose restraints on the growth of non-plan and unproductive expenditures, strict implementation of the programmes, control of inflation etc., to make realise the plan objectives. But the tragedy is that though more than a year is over after the commencement of the plan, no such good signs are in sight.

Subscribe to :
SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign :* 15 Dollars)
surface mail

34

YEARS OF INDEPENDENCE

THE FRUITS AND THE FUTURE

☐ we have built the foundation of a modern self-reliant economy.

☐ we have achieved self-sufficiency in food, diversified our industrial structure and made significant progress in science and technology.

By 1985
we aim at lifting one-sixth more of the people
above the poverty line and provide safe drinking water
to all the problem villages.
And by 2000
eradicate leprosy and reduce birth rate from 36
to 21 per thousand.

'THE DAY WILL DAWN, HOLD THY FAITH FIRM'
(Rabindranath Tagore)

Human Capital: Its Role in Assisting Economic Development

By **Kumar Ramachandra Prasad Singh** *

In developing nations, the planners often overlook the need to develop the human infrastructure. This causes serious bottlenecks in the implementation their development plans. India provides the case study of a country in which human capital formation has taken place on an impressive scale. But the potential to be tapped is still enormous. In this article, the author examines the issue of human capital formation in the context of the implementation of India's five year plans.

WHEN we talk of human capital, we actually talk of the quantitative as well as the qualitative attributes of a human population In the category of quantitative dimensions or attributes we consider the size of a population, its birth rate, death rate, expectancy of life, family size and so on. With greater and better formation of human capital, both death rate as well as birth rate register a fall, and the expectancy of life rises. The size of families becomes small and easily manageable. These are the common changes we find in the wake of better and extensive formation of human capital in a country. On the contrary, in societies where there is a low grade or degree of human capital formation, there is population explosion and birth rates as well as death rates are very high.

We can exclude density of population from this category because of its confusing character. In the normal course, density of population should be very high in an area where, because of the low grade of human capital, people allow the population to grow or drift like a rudderless boat. But we also find a high density of population in areas and countries which are, by any standard of judgement, developed and bubbling with a high grade of human capital. Take for example, the case of England and Japan. These countries have abundant supply of good quality human capital. Even then, they have a high density of population. In India, Kerala and West Bengal have had the highest density of population among the States, so also Delhi and Chandigarh amongst the Union Territories.

In qualitative dimensions, we include the politico-socio-cultural and, above all, educational attainments of a population. Then there are extra-qualitative attainments like highly specialised education and training in different branches of knowledge. These acquisitions and their magnitude largely determine the capabilities of a population to coutribute to the economic advancement of an area or a country. Just like the capital created in fields and factories, investment in human beings plays a very crucial role in the economics of development. In fact, investment in human beings should precede investment in fields and factories. Appreciable improvement on the politico-socio-cultural and educational fronts can work miracles by bringing in order, sophistication, harmony, discipline and breakthrough in scientific and technological fields.

Truth to tell, it is in the minds of great intellectuals that good and great ideas and plans take their birth. The physical and mental health, cultural and educational achievements,character and quality of a human population immensely make or mar the present performance and future prospects of the nation it inhabits. It goes without saying that the fast reconstruction or rehabilitation of the German economy in the post-war period was above all due to the unique national character and the quality of the German people. Against too many and too heavy odds, the Germans could rehabilitate themselves and their economy in so short a time. In India, it is often pointed out that the prosperity of the Punjab and Haryana States is largely due to the sturdy physique of the people inhabiting these areas. During the last few years, India has earned a lot of foreign exchange by exporting human capital to the developed and the developing countries of the world. And the foreign exchange has enabled this country to buy many things which are so essential for the smooth running of the process of production.

The process of production requires a large variety of human capital. The more round about the process of production, the greater is the need for a high degree of human capital. The need for different types of expertise can hardly be exaggerated and without it, we cannot even think of using the machines, much less the complicated ones. All investments in fields and factories will be redundant without investment in human beings— expenditure incurred on the improvement of physical and mental capabilities of human beings. To be more specific, without huge regular expenditure on health and sanitation, education, especially scientific and technical education and training, no nation can plan for rapid economic development. A nation cannot and should not indefinitely depend on other nations for running its machines and managing its factories. In other words, a large army of knowledgeable persons is very essential for manning and managing the production work being carried on in fields and factories.

Even for running the offices, keeping the stores, guarding the premises, and during manual labour, human capital of some type or the other is indispensable. In the process of production, the role of human capital is inseparably interwoven with that of machines and equipments. The intensity of this interdependence grows in diminsion with every increase in the complexity of the production process.

---

* Dr. Singh is Reader, Post-Graduate Dept. of Economics, Bhagalpur University, Bhagalpur-812001.

Formation of human capital, like any other capital, takes place everyday as well as over a number of years. It is a continuous process, so to say. A country has to regularly reinforce its stock and flow of human capital by activities which add to its existing reservior of socio-cultural and educational attainments. Every step forward in these directions adds to the country's stock and/or flow of human capital. But in the present-day world, what helps its formation most is anything and everything which contributes appreciably towards educational reservoir of the country in question. Establishment of good schools, colleges and universities with vocational bias, modernisation of the syllabi at every stage, frequent up-dating of teachers and teaching equipments, constant contact and liaison with higher and specialised centres of learning abroad, cultural-cum-educational exchange programmes between nations and international exchange of ideas are some of the steps highly useful in the formation of human capital.

But by no stretch of imagination one can underrate the contribution of socio-cultural activities in influencing and shaping the formation of human capital. Likewise, the impact on human capital of measures leading to improvements in health and sanitary conditions can hardly be exaggerated. These are likely to add to the longevity, vigour and vitality of the human beings. And we all know there is sound mind in a sound body. While socio-cultural and educational activities bring sophistication, sharpness and discipline in one's life, health and sanitary measures turn people fit and agile.

When one thinks of the possible indicators of the formation of a high degree of human capital, one feels like thinking in terms of quantitative and qualitative dimensions of its formation. The optimum or near-optimum size of a population, sound health of the general mass of the people, the longevity of their lives, low birth and death rates, small size of the families, and similar other obvious signs are broad indicators of its formation on the quantitative side. Indicators on the qualitative side are comfortable supply of skills, export of knowledge and knowledgeable persons to the country or countries where they are needed, least dependence of the country on other countries for experts and expertise, high percentage of literacy, high degree of research and training, increasing stock and flow of entrepreneurship, high sense of duty, development of national spirit, good neighbourly relation spirit of accommodation between people of different communities and religions, etc. are some of the indicators of formation of human capital on the qualitative side. Foreign remittances made by the countrymen working abroad can also serve as one of the indicators. But we have to make comparisons with other countries and try to assess the situation.

However, there cannot be perfect and fool-proof indicators. For instance, if the size of the country is very big, the number and recurrence of social and communal disturbances may be too many as compared to the number and recurrence of such happenings in smaller countries. Secondly, despite a very high degree of human capital formation, even advanced countries like the U. S. A., the U. K. and Canada, may be heavily depend on developing countries for the import of human capital because of the simple reason that human capital is cheaper in developing countries.

In India, human capital formation has been taking place very gradually. The percentage of literates to the total population has been increasing in every census. It has now gone up from 29.45 per cent in 1971 to 36.17 per cent in 1981. The census of 1981 could not include figures for Assam, Jummu and Kashmir. Even the percentage of female literates has been going up. In 1971 it was only 18.69. It has now gone up to 24.88 per cent although it does not include figures for Assam, Jammu and Kashmir. Similarly, while the expectancy of life has been going up, the birth and death rates have registered a fall. These are all good signs so far as formation of human capital is concerned. These achievements may not be labelled as spectacular but they are no mean attainments by any count. The proliferation of educational, training, and research institutions is also significant in the context of human capital formation. Their contribution to the development of human capital is evident from the fact that in scientific and technical fields, India has not only demonstrated its self-sufficiency to a considerable extent but has also helped quite a few developing countries by supplying scientists, teachers, engineers, doctors, technicians, skilled and semi-skilled persons of different varieties. To some extent we have succceded not only in meeting our own requirements of human capital but also in exporting it. India having the second largest population in the world — 68 crores, according to the 1981 census — has immense potentialities of development of human capital not only to meet its own requirements but also for meeting that of other developing countries. Small wonder, the development of the human infrastructure is receiving the special attention of our planners.

DEVELOPMENT OF TEA INDUSTRY

India is the world's largest producer, consumer and exporter of tea. The production of tea in India during 1980 is expected to be around 580 million kgs. against 546.32 million kgs. during 1979. However, exports of tea from India have been showing ups and downs, centering around an annual average of 200 million kgs. The Government has taken various fiscal measures for boosting exports of tea. These include reduction and subsequent abolition of export duty on tea, placing tea bag machinery import under OGL, reducing import duty on tea bag machines from 75 per cent to 25 per cent and enhancing the rate of cash compensatory support to packet tea and tea bags from 10 per cent to 12.5 per cent.

During the Sixth Plan, an annual increase of 30 to 35 million kgs. of tea in production has been planned to meet the domestic and export demands. The Sixth Plan provides for a total outlay of Rs. 420 crores for various on-going and new schemes of the Tea Board for promotion of tea and for 1980-81 an outlay of Rs. 60.5 crores have been proposed.

INDEPENDENCE DAY FEATURE

Sixth Plan: Some Riddles Analysed

By THE EDITOR

THE broad contours of the Sixth Five-Year Plan, which received the stamp of approval at the meeting the National Development Council in February are well known. Covering the period, 1980-85, the Sixth Plan envisages an investment of Rs. 1,58,710 crores. Of this, the public sector's share is Rs. 84,000 crores and the rest, namely, Rs. 74,710 crores, goes to the private sector. The public sector thus gets the lion's share of 53 per cent, but the share of the private sector, at 47 per cent, is by no means negligible. The public sector's outlay of Rs. 97,500 crores which includes the current outlay amounting to Rs. 13,500 crores, is divided between the Centre and the States, with the Centre raising Rs. 47,250 crores and the states taking the burden of Rs. 50,250 crores. Actually, if the states had not come forward with an assurance to put forward greater resource mobilisation effort—Rs. 9,000 crores against Rs. 6,000 crores envisaged earlier—the total public sector outlay of the Sixth Plan would have stayed at Rs. 90,000 crores as envisaged in the earlier plan framework.

In an inflationary situation, these figures, based on the prices that had prevailed during the year immediately preceding the plan—1979-80 prices, to be precise—cannot be taken as sacrosanct. In the very first year of the plan, the price-rise has been of the order of 15 per cent. A price-increase of a similar order can be expected during the current year, namely, 1981-82. Even a zero inflation rate in the remaining three years of the Sixth Plan will thus give an average annual price rise of about 6 per cent. But it would be prudent to assume an annual inflation rate of 10 per cent during the plan period. Assuming a probable price rise of some 50 per cent for the 5-year period, the real resources that can be raised within the frame work of investment envisaged in the plan will be less at least by about 30 per cent.

That is to say, if the resource picture remains in tact, in money terms, then one has to brace oneself for shortfalls in reaching the plan targets in physical terms to the extent of nearly one third. But the planners do not seem to think that the rate of inflation will be of such a high order as to cause serious short falls in reaching the plan targets. At the same time, they do not minimise the need to put in greater resource mobilisation effort. A recent study of the resource outlook made in Yojana Bhavan, in the context of the prevailing inflationary trends, indicates that additional resource mobilisation may have to be stepped up from Rs. 21,302 crores as mentioned in the plan document, to well beyond Rs. 22,000 crores.

The plan is quite ambitious. It is ambitious not so much in terms of the targeted sectoral growth rates but in terms of the overall size of investment. This is obvious from the fact that it is much larger than all the previous five plans put together. If the dimensions of investment appear to be out of proportion to the targets to be achieved, it is because of (a) the persisting double digit inflation and (b) the continuing unfavourable capital-output ratio. Needless to say, the success of the Sixth Plan hinges on the steps that the planners will take in order to overcome these hurdles.

In percentage terms, the growth targets, by themselves, do not look over-ambitious. The plan aims at a GNP growth rate of 5.2 per cent and a growth rate of 3.3 per cent in per capita income. These targets have to be viewed in the light of the average national income growth rate of 3.5 per cent and the per capita income growth rate of 1.3 per cent achieved during the three decades of planning. It may also be added in passing that the 1981 census figures have exceeded the population projections assumed by the planners by a significant margin. While the planners' projection places the country's population in 1980 at 659 million, the latest head count places it at 683 million. This may mean a lower rate of per capita income growth than the one assumed by the planners.

Since the size of the population has a direct bearing on the size of unemployment, the 1981 census figures call for a reappraisal of the planners' employment strategy. Population projections based on the census figures may seriously disturb the delicate balance arrived at by the planners between the number of additional jobs proposed to be created during 1980-85 and the number of new entrants to the labour force. In other words, the goal of additional employment may have to be revised upwards from 34 million, if the planners are keen on preventing the unemployment backlog from growing bigger. The backlog at the beginning of the Sixth Plan stood at around 11 million.

As to the plan priorities, and sectoral allocations made on the basis of these priorities, one can have no quarrel over the overall pattern evolved. The planners have doubled—and in some cases more than doubled—the outlay on all the major sectors. Since the emphasis is on employment generation and poverty eradication, it stands to reason that they should allocate more resources for agriculture and irrigation. The growth rate of 4 per cent in agriculture proposed in the Sixth Plan, though modest, is an improvement over trend rate of 2.7 per cent achieved during the earlier three decades. What is noteworthy about our agriculture is that, even the limited success achieved in spreading the "green revolution" has brought us close to self-sufficiency in foodgrains. If it spreads to all the states, leading to an improvement in the per acre yield of the major crops, then it will also be possible to bring about an improvement in the per capita consumption of the rural poor.

A commendable aspect of the Sixth Plan strategy is that it seeks to make a frontal assault on poverty. The plan takes note of the fact that 50 per cent of our people are living below the poverty line, and that the most acute forms of poverty are to be found in the rural sector, and outlines some far-reaching measures to attack this problem. A measure worth mentioning is the Integrated Rural Development Programme under which 3,000 poorest families will be selected from each of the 5,000 blocks in the country for the purpose of bringing them above the poverty line. The success of IRDP, which is being implemented at a cost of Rs. 4,500 crores—including Rs. 3,000 crores of institutional finance—hinges as much on organisational effort as on the ability of banks to provide finance to the desired extent. This, coupled with the National Rural Employment Programme which seeks to provide jobs to idle hands in the villages during the slack season, is expected to make a dent in the twin problems of rural poverty and unemployment but it is unrealistic to expect that, within the limited frame-work of the Sixth Plan, a lasting solution can be found to these problems.

Industry is another area where the planners' success in achieving the stipulated growth rate of 8 to 9 per cent per annum hinges on several factors which include an improvement in the infrastructure, industrial peace, the performance of the public sector units and the private sector's capacity to raise resources on the required scale. There has actually been a deceleration in the rate of industrial growth in the seventies, in contrast to the steady growth of about 8 per cent witnessed in the first 14 years of planning. Side by side with additional capacity creation, as envisaged in the plan, there should be concerted effort at improving the utilisation of the existing capacity. This is particularly true of the public sector where an investment of Rs. 15,600 crores has so far been made. As to the private sector, it can be expected to put in its share of the effort provided the present policy of reducing the area of controls is carried a step further and fiscal policy is altered to reduce the level of corporate taxation in order to enable the industrialists to undertake an investment of the order of Rs. 15,000 crores during the Sixth Plan period. These remains big "ifs".

In the past, the tardy growth of the power sector was a major hurdle to industrial growth. This explains why the Sixth Plan accords special importance to the expansion of the generating capacity which is expected to increase from a little over 31,000 mW in 1980 to nearly 51,200 mW by 1984-85.

The planners' determination to reduce the country's reliance on energy imports is reflected in the special importance they have accorded to the petroleum sector which accounts for a plan outlay of Rs. 4,300 crores. With the demand for petroleum products projected to rise from about 30 million tonnes in 1979-80 to 45.50 million tonnes by 1984-85, the need to increase domestic crude production from the present level of around 12 million tonnes is keenly felt. Since the crude reserves—known and potential—ary very limited, the country cannot hope to achieve complete self sufficiency but by stepping up off-shore exploration, as envisaged in the Sixth Plan, it should be possible to reduce the oil gap to some extent.

Three factors have rendered a reappraisal of the resources position necessary and urgent. They are (a) the deterioration in the country's balance of payments due to a deceleration in export growth, increase in imports and a fall in inward remittances; (b) the continuing inflation which tends to increase project costs and (c) the inability or reluctance of the state Governments to raise additional resources on the required scale. This calls for the adoption of a series of measures aimed at boosting the export growth rate from the level of 9 per cent envisaged in the plan to around 15 per cent, reducing the consumption of petroleum products which is a major cause of the rising import bill and adopting measures to bring down the rate of inflation.

Society and Environment — Tomorrow's Needs

— S. C. SETH *

ENVIRONMENT is not merely connected with the problems of air, water and noise pollution. Environment, as it pertains to a concern and anxiety for a 'quality of life', perhaps, also constitutes a limited view of things. Essentially, the concern for environment, is the concern with 'life' in its 'totality'. In this sense, it is concerned with people, with society, with technology, management, our learning, experience and our way of life, our culture and above all it is also intimately concerned with 'future'.

The thrust of the environmental thinking should be oriented to the compulsions of the galloping Indian population and the consequent increased need for goods and services to the citizens. Thus, the first pointer for consideration lies with the policy makers whether they could today, in all their programmes, take into account the emerging needs of a population which, by the turn of century, would have doubled up. Whatever also lies in the area of improbability the governance of a 'large human system' which is the stark Indian condition, experience, and reality, is a certainty of an order which needs to be fully reckoned with. From this acceptance flow other considerations. Could we retain the institutional heritage and cope with the future with the existing administrative apparatus or do we need to innovate and make a radical break from the past in some selected areas? These are some of the several debatable questions that futuristic thinking have surfaced in a manner relevant to environmental thinking. Since those who are trying to look at a distant date or a long term horizon are really trying to frame a perspective which has great relevance to our current day decision making process. This is an exercise in preparedness and not an escape function.

As an academic discipline, both Futurology and Environmental Science are inter-disciplinary scientific exercises. In India, however, both are relatively a young experiment. But there are more than 50 countries and one thousand organisations in the world, including several premier organisations of the United Nations, such as, UNITAR FAO, WHO and UNESCO where active future research and environmental studies are going on in a very big way. Their concern is with global needs, and they are trying to look not only at the direction towards which our planet is going but they are also trying to determine what are the most desirable changes that we should make in living our lives on this planet which may for a long time to come make our lives more fulfilling, more satisfactory, ensuring a certain quality of life.

Thus, any emphasis on environmental programme should concern itself also with the needs of today and needs of tomorrow. Let us now look at the 'needs' in the Indian context. We are today 680 million people and it is our rough estimate that, if we continue to add people as we are adding them, because on an average we are adding a child every 1½ to 3 seconds, — with this rate of growth we would be having approximately 960 million people by 2000 A. D. Now if this fact has some relevance then our starting point commences right here since our concern is how to offer a satisfactory living for 960 million people ensuring a certain quality of life in less than 7000 days before the 21st century.

Let us now turn to other facets and realities of our society. The reality of India is indeed baffling in character. A large country with numerous ethenic groups having a variety of customs and traditions; uneven secio-economic growth and suffering from mass unemployment is something to be reckoned with. Curiously enough, even though we are in the 20th century, in India, we live simultaneously in several centuries. In each household there are persons whose life style would correspond not the 20th century but of different other centuries. The grand-mother lives in one century, the father in the second, the children in another century and so on. Likewise, there is a strange co-existance and admixture of different technologies. We are simultaneously in the bullock-cart age, in the steam engine age, in the motor car age, in the jet age, and so on. Over and above this lies the poverty aspect. According to official figures, we have 73 per cent of the population in the rural sector and 50 per cent of the population in the urban sector living below the poverty line, which means that each person has the capacity to spend only Rs. 1 per day to meet all his needs: food needs, housing needs, education needs, health needs and transportation needs, etc. This indeed presents a disturbing situation. The value variance and poverty are two additional indicators that Environmentalists shall have to take note of.

Social distortions that characterise the Indian society, social inequality, economic impoverishment, educational inadequacy, slow environment degradation, massive worklessness are all positive indicators of the malady not necessarily offering a clear cut choice or a bunch of choices and decisions that shall help us to manage our resources well in order to meet and cope with a variety of human needs that people demand of its decision markers. Thus to ensure a better future and ideal environmental conditions we need to search new alternatives and policy options.

Here one can ask: Do we have synthesis for a national average, for a life style, which even if it

---

* Dr. S. C. Seth is Member-Secretary, Panel of Technology, Department of Science & Technology.

were not the life style of one and all, at least, was that normative goal which was one that every citizen of this country could compete for; and was approachable. Today the difference in income level would be around 1:30 if not more. Should this be so in the future as well? Has this any environmental implications and lessons? Perhaps many! Which should be taken note of in delineating a new environmental policy. Let us face it: India has vast potentialities. Our population can be our human resource and an asset. In order to mobilise this great human potential we cannot ignore the logic of technological advancements.

If environment and technology are inter-connected they embellish each other or they destroy each other - but connected with this the question of 'choice'. Here environmentalists, just like futurologists should go in for technology assessment in terms of the long range implications. First of all, therefore, there is need for us to cosider of a technology–choice and control mechanism which should provide to us a 'Technology-impact–assessment/statement in terms of long range use, application and consequences; the first order consequences, the second order consequences and the third order consequences. This should be supplemented by (i) legislative meaures, by (ii) an organisational and institutional framework, and (iii) we should develop a national system wherein public opinion plays a dominant role and thus ensures environmental and futuristic obligations.

Essentially, the State should have a right to satistfy itself that a given technology (both software and hardware) - indigenous or imported (a venture, an undertaking or a product) has no harmful consequences on man, nature and society. The most important criteria for assessing any technology in the Indian context of the welfare of the million of people of this country–compels us to opt for that 'technology' which satisfies the needs of 'many' rather than a 'few'. Whereas factors like environmental degradatiyn and other well-catalogued consequences of technology—now familiar enough—should be studies more though Indian research in this area is still nagligible. What is more, Indian education, industry and Government should take a very long range vision in choosing those technologies which can collapse time, bridge a gap of decades and be of use for a larger sections of society and cause no environmental hazard now or in the future. The welfare and service criteria should take precedence over the 'scale' and sophistication that characterises 'technology'.

A WORD WITH THE TAX-PAYERS

In the new financial year 1981-82, tax-payers will be under obligation to file their Income, Wealth-tax etc. returns within specified period Voluntary compliance shall be facilitated if the following are observed by the tax-payers:

i) Return should be filed within specified time to avoid penalty and interest:

ii) The information in the return should be correct and complete. This would help you aviod penalties and prosecution;

iii) The tax on Self Assessment should be paid before filling the return of Income-tax/Wealth-tax;

iv) Please attach form No. ITNS 224 giving information with regard to any pending actions for rectifications, refunds, Tax Credit etc. relating to your earlier assessments;

Please remember to incorporate all information in ITNS 224 attached to the return of the income;

v) Please ensure that the return of Income-Wealth-tax is filed in the revised forms in use for the assessment year 1981-82.

Avail of help and assistance on voluntary compliance and do not expose yourself to consequences following detection in survey, search and seizure operations.

Director of Inspection
(Research, Statistics, Printing & Public Relations)
INCOME-TAX DEPARTMENT
New Delhi-110 001.

davp 81/88

SEP 1981

New Dimensions of Social Welfare Movement

— SUSHILA ROHATGI *

THE Conference of the Chairmen of the State and Union Territories Social Welfare Advisory Board which concluded recently marks a watershed in the history of the Social Welfare Movement in the country. For the first time, there have been suggestions from different quarters for a reappraisal of the various programmes already in operation and for the formulation of new programmes in the light of the fast changing socio-economic situation. The Conference once again highlighted the role of the Central Social Welfare Board as a catalyst for peaceful social revolution. It recognised the Board as a major source for tapping the goodwill of people from all walks of life who are really keen to contribute their mite for welfare work in the country.

The major programme of the Central Social Welfare Board namely, the Socio-Economic Programme started in the year 1958 has been able to provide work and wage to lakhs of needy women all over the country. We have been able to build ancillaries to major industrial concerns where socially handicapped women are employed, manufacturing products for the major industries. The production units under the Socio-economic Programme have been able to make a wide range of things which help them stand on their own and in many cases supplement the famil budget. In the course of the last few years, we have added a new dimension to this vital programme of the Board by starting a large number of agro-based units such as dairy, piggery, sheepery, etc. to provide employment to women while remaining in their own surroundings.

The outlay on the Socio-economic Programme has risen from two lakh rupees in 1959-60 to Rs. 2.35 crores in 1980-81. Over the years, the Central Social Welfare Board has extended assistance to 3,658 units all organised by the voluntary organisations giving employment to around 50,000 women. The Central Social Welfare Board has decided to help in raising the incremental income of needy women, by including small savings collections also in its schemes; a target of one lakh additional employment to needy women is planned during the Sixth Plan.

The Scheme of Condensed Courses of Education for Adult Women started in 1958 is another major programme of the Board which gives an opportunity to a large number of needy women to complete their schooling in the shortest possible time. In 1975, the Board gave a new punch to this programme by starting a one-year course for failed secondary school or matric candidates and vocational training courses. This programme has been gaining rapid momentum with the higher allocations being made year after year. The amount utilised for the last financial year has been Rs. 1.25 crores. Since the inception of the scheme in 1958, the Board had run near about 5,000 courses benefiting over one lakh women.

The vocational training courses undertaken under this programme enable needy girls or women to qualify themselves for secretarial courses, nurse-aid, photography, radio and T.V. mechanics etc. In order to extend the benefit of the Condensed Course of Education to tribal areas, it has been decided to start primary school courses for those girls who have not had any schooling at all.

Apart from the programmes for women, the Board has been one of the major organisations in laying the ground work for child welfare services in the country. The Board's major concern has been the promotion of pre-primary school education as is evidenced by more than 12,000 balwadis being run by voluntary agencies in different parts of the country.

For the welfare of working women, as well as the children and those children of the ailing mothers, the Board's massive programme of day-care services take adequate care of the children in the areas of health, immunisation and supplementary nutrition. Last year alone, we have succeded in making a tremendous breakthrough in this programme. From 1971 creches early last year, today the number of creches has risen to 4,600. Each creche looks after as many as 25 children, most of the children belonging to those working parents, whose monthly income does not exceed Rs. 300 p.m.

The Ministry of Health and Family Welfare entrusted 125 Family Welfare Motivation Camps to the Central Social Welfare Board for implementation last year. Considering the importance of population control through education, the Central Social Welfare Board has decided to conduct 2,000 camps during this year. The idea of the small family norm is more important today than at any time in our history. Our Prime Minister, Mrs. Indira Gandhi, pointed out the magnitude and gravity of this problem at the World Health Assembly at Geneva early this month and at the National Conference of the Parliamentarians on Population and Development. It is calculated that if population grows at this rate, we may hit the 100 crores by the turn of the century. Our social workers are eminently suited for spreading the small family norm because of the persuasive skill and their closeness to the village community. (PIB).

---

* Smt. Rohatgi is Chairman of Central Social Welfare Board.

Role of Tourism in Augmenting India's Foreign Exchange Earnings

UNPRECEDENTED economic prosperity in many parts of the globe in the post-War years, together with greater leisure and the revolutionary growth of air transportation, have put tourism at the top of world trade today. It is now the world's second largest export industry. Tourism is of course not a new phenomenon. People have been travelling for thousands of years, on pilgrimage or in quest of new lands and new ideas. But tourism as we know of it today is a post-World War II phenomenon. It has been the fastest growing activity in the past 30 years.

Thirty years ago, in 1950, only 25.3 million tourists undertook international trips spending an estimated US dollars 2.1 billion. In 1980, 285 million world travellers spent US dollars 92.5 billion. The growth has been so great that it is really a futile exercise to work out the percentage growth. In India, tourism was an unknown activity—at least one which deserved hardly any attention in 1950. However, the country must have woken up by 1951 for monitoring of this activity had started by then. In that year, India received a meagre 16,829 tourists bringing a foreign exchange earning of Rs.7.7 crores. By 1955 tourist arrivals totalled 33,269, a compound growth rate of 18.6 per cent for the previous five years, with a foreign exchange earning of Rs. 10.30 crores. By 1970, India received 280,821 foreign tourists and earned foreign exchange of Rs. 40.60 crores. In 1980 India recorded international tourist arrivals of 800,150 with tourism receipts amounting to Rs. 482 crores.

While the tourist arrival figures are based on actual head-count taken from disembarcation cards, tourism receipts are estimated on the basis of tourist expenditure surveys carried out for the Department of Tourism by research agencies, except for the 1951 and 1955 figures quoted above which were the estimates of the Reserve Bank of India. The Reserve Bank even today does keep an account of the invisible earnings of the country. And there is quite some difference between the tourism receipts as estimated by the Reserve Bank of India and the Department of Tourism. Against the Department of Tourism's own estimates at Rs. 482 crores in 1980, provisional estimates based on RBI's figures indicate that foreign exchange earnings from the travel account in 1980-81 amounted to Rs. 785 crores.

In tourist statistics expatriate Indians visiting India, Pakistani and Bangladesh nationals are not counted. The Reserve bank, on the other hand, takes into account all foreign exchange brought into India by any traveller irrespective of his nationality and irrespective of his length of stay or purpose of visit. While the difference between the estimates of the Department of Tourism and those of RBI are yet to be reconciled, one can safely assume that tourism receipts of the country in 1980 were somewhere between Rs. 500 crores and Rs. 785 crores. The gap is substantial. None the less, even if tourism receipts are assumed at Rs. 500 crores, it makes this industry the third or fourth largest foreign exchange earner of the country.

This somewhat rosy picture of the place of tourism within the national economy, should be viewed against the world perspective. Of the 285 million world travellers in 1980 India received a meagre 800,150 or 0.21 per cent of the world traffic. Of total world receipts of US $ 92.5 billion India received US $ 602 million (Rs. 482 crores) or 0.65 per cent of the world receipts. This of course is not a very happy situation.

But the comparison is somewhat misleading. Some 93 per cent of the world tourist traffic is accounted for by the developed countries with only seven per cent coming to the developing countries. Only 0.5 per cent of the world traffic comes to the South Asia region. Europe alone accounts for 75 per cent of the world traffic. For a Frenchman to cross into Spain or for a Swiss to visit Italy is a matter of only a few hours even if he were to motor down. No wonder countries in Europe received 208 million tourists last year.

This world perspective holds bright prospects and gives us hope for the vast potential that is still available for expanding the base of tourism in India. The growth of tourism in this country over the past 30 years has been phenomenal and it will continue to grow very substantially in the next decade or two and in fact beyond. In 1979, the country had a poor year recording a growth of only 2.2 per cent. 1980 was twice as good with a growth of 4.6 per cent. And in the first six months of this year, over 10 per cent growth has been registered. However, this is not quite satisfactory. After all India had been recording increases of 15 and 20 per cent. In fact this is the only sector which maintained a steady increase of 14.6 per cent in the decade 1968-78.

Besides the direct foreign exchange earnings from tourism, there is, of course, the multiplier effect. For the tourism industry in India this has been calculated as at 3.27 times. This means that every tourist dollar that comes into the country turns around within the economy 3.27 times before it finally dissipates. This means that the Rs. 500 crores earned in foreign exchange by the country in 1980 generated a total economic activity worth Rs. 1,635 crores. (PIB).

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Air-India Meets the Challenge

In recent months, Air-India has been flying through thick cloud. Crippling fuel hikes, inflation in airline operational costs and a general recession in air travel, had virtually brought all the world's airlines to their knees. In addition, came the month-long strike in October/November 1980 by the Air-India Employees' Guild,- the diversionary routes and consequently additional fuel imposed by the current Iran-Iraq conflict. Payments for the four new 747s inducted into the fleet in early 1980 posed another problem.

But Air-India was not just an ailing organisation. The entire industry was sick. Other world airlines were similarly afflicted. *En masse*, they were retrenching staff, selling off planes and prestigious buildings. In June 1981, International Air Transport Association (IATA) called a special meeting of senior airline executives to "consider the serious and growing difficulties confronting the world's airlines." According to an IATA estimate, member airlines faced a shortfall on their international scheduled operations of $2.6 billion in 1981. Action in several areas, it was agreed, was imperative in order to avoid airlines "sinking deeper into debt."

Unremitting efforts to cut losses and improve Air-India's financial liability were called for. And while the world's airlines continued to flounder in what Mr. Knut Hammarskjold, IATA's Director-General, has called "the worst year in the history of the world's international airlines", Air-India proved that it could be the exception. Each month in 1980-81 showed a progressively decreasing loss, until December 1980 finally struck oil with a profit of over Rs. 1 crore. A loss in January 1981 made one wonder if this was just a flash in the pan, but this was due to yet another fuel hike. And then came a profit, though small, in February, a much larger one in March, and yet another in April. And with this trend firmly established, every one knew that Air-India had emerged from the clouds into sunshine.

In 1980-81, for the first time ever, Air-India exceeded the Rs. 500-crore revenue; the total revenue of Rs. 508.75 crores (provisional figures) represents a growth of 28.4 per cent over the previous year, in a year where worldwide stagnating traffic represented no growth. Constant monitoring of flights brought down delayed departures from 52 per cent of all flights in March, 1980 to 24 per cent in March, 1981, a large percentage of these being due to circumstances beyond the airline's control such as bad weather, Aeronautical Telecommunication delays etc. By judiciously rescheduling flights in February, 1981, the passenger capacity utilisation that month was 67.1 per cent as compared to 60.2 per cent in February, 1980.

A major breakthrough in efficient customer-servicing was achieved after successful cutover of the Real Time Reservation System in India which enabled prompt and efficient reservation facilities. The system was cut over in Bombay on March 16, in Delhi on March 30, Calcutta on May 25 and Madras on June 15. As would be expected of any project of this magnitude and sophistication, there were minor teething problems, but by and large, the system has been functioning satisfactorily. When the computer cuts over at all stations on its worldwide network by end-1981, load factors will go up by a further 2-3 per cent due to more efficient allocation of seats. With a net profit in April 1981, the budgetted profit for the current year is Rs. 1.5 crores, but there is every possibility that the net profit will be much higher, the total revenue being estimated at Rs. 635 crores.

Among the measures taken by Air-India's management to increase revenue was deployment of the additional capacity on routes which would produce remunerative yields, the setting of specific first-class and full-fare economy class targets for each station, and greater accountability by Air-India's seven regions. Expenditure has also been streamlined resulting in a net saving of over Rs. 26 crores last year. Today, Air-India is steeped in management-oriented and result-oriented methods. A recently devised 'decision laboratory' ensures that no departmental and interdepartmental proposals are held up. The Chairman presides, and decisions are given on the spot. Paper work and 'ego-wrangling' are eliminated. Barring any unforeseen happenings, Air-India is well on the way to being one of the few airlines in the world to show a profit in 1981, possibly the most critical year in aviation history. (PIB).

Family Planning—Personal Approach in Motivation

— S. SIVASANKARA PILLAI

THE population figures of the 1981 Census have once again set in motion discussions and debates on the Family Planning programme. The growth of population during the seventies was more than the growth in the sixties. Does this mean that the programme is going downhill? Doesn't the small family idea appeal to more and more people? What are the factors that slow down acceptance in spite of motivation ?

Family Planning is a people's programme. The message is simple. It is borrowed ideas and the tendency to go 'global' that complicate things, especially for the couples in the rural areas. For example, the slogan "prosperity is the best contraceptive" may have a rhetorical appeal but more serious attention on the idea in a society like ours will be like a dog chasing its own tail and going in circles. What will produce results will be the proper identification of areas of resistance and motivation with a personal approach, not one with marks of a 'national programme' mould.

The two divergent views that must have been there even at the inception of the programme are still there. Some people are never tired of repeating the 'God-given babies' line while some others won't be satisfied with anything less than compulsory sterilization. For a fisherman family in a coastal village or an old–school farmer in a remote corner of a backward district, a new baby is not another mouth to be fed or body to be clothed and sheltered but a pair of hands to help in the work. He knows that feeding and clothing will go for ten or twelve years before the work starts coming. Prophecies of demographic doom won't create a flutter here. Even those who may get flickers of recognition about what they are in for show a tendency not to change and continue as 'compulsive' procreators. The mood of rebellion against social uncertainty and economic shortcomings repels friendly guidance and sound advice.

The motivator with such a target groups has a difficult task. He has to convince the parents that the quality of life for their children is what matters in the long run, not the temporary relief the family gets through earnings from child labour.

It is again the under-privileged sections of the society that fall an easy prey to obscrurantism and false propaganda. The role of voluntary agencies, social workers and opinion leaders is therefore more significant in the extension work among such less enlightened and less privileged families. As late as May 25 this year the Prime Minister, Mrs. Indira Gandhi, has reiterated the Government's commitment to Family Planning as a voluntary programme. Compulsion has been ruled out.

The Government of India has extended and strengthened service and staff facilities at the district, block and village levels to effect co-ordinated work in motivation and service. The role of mass media and opinion leaders is being increasingly recognised. More and more catalytic groups are being identified. Fifty thousand orientation Training Camps for opinion leaders were held during 1980-81. As Family Planning programme is integrated with Maternity and Child Health service and as women folk have to bear the brunt of the problems of a large family, satisfied women acceptors can spread the message among their sisters in a very effective manner. "Mothers' Day" organised by the Primary Health Centres is becoming a popular feature in the villages.

Sterilization during 1980-81 (upto November) was 11.1 lakh compared to 10.2 lakh during the same period in 1979–80. Methods other than IUD showed increase by 7.6 lakh. There is no denying the fact that the pace of acceptance of the small family idea has not been as commendable as in the case of reaction to some other modern ideas of social change. While Kerala, Maharashtra, Orissa, Punjab, and Tamilnadu have done very well, other States performed not so well. But the change is on everywhere. *(PIB)*

Milk for Every Household

MILK is a basic need of every household in India. The *per capita* availability of milk was 110 gms. per day in 1973-74. It has increased to 120 gms. in 1979-80. The target for increase in availability for 1984-85 is 146 gms. per day. Could it be achieved? Judging from the progress of different milk schemes during the past 6–7 years, we can confidently say that we can achieve this target.

With this objective in mind, the Government of India conceived and initiated the largest dairy development project in the world, Operation Flood-I. This project had twin objectives — first to increase milk production, and arrange for continuous supply of milk at reasonable rates to the consumer. The second objective was to secure milk at a reasonable price from the producer and arrange for its marketing. The idea was to help in increasing the standard of living of the rural poor.

Recently, a team of the United Nations evaluated the achievements of Operation Flood-I and submitted its report to the Ministry of Agriculture. The important observations in this report speak of the success of Operation Flood-I.

As regards increasing milk production, during 1979-80, milk production in India has increased significantly and there is evidence that much of this was due to the activities of Operation Flood-I.

Operation Flood-I has given a great deal of attention to stimulating increased milk production by action designed to enhance the productivity of milch animals. As many as 7,730 villages are covered under technical input programmes, 262 veterinary mobile units and 3,052 artificial insemination stations. Ten feed plants have been established, two expanded and three are under construction.

As regards the continuous supply of milk at reasonable rates to the consumer, the Operation Flood-I improved substantially the availability of wholesome milk at relatively stable and reasonable prices to city consumers. The successful development of milk procurement cooperatives in the villages, the build-up of transport facilities and milk processing capacity and the promotion of market expansion helped to achieve major progress in satisfying the needs of consumers and to assure a better share for producers (as compared with middlemen) of the price being paid for milk by the consumers. The project succeeded is increasing milk supplies from Operation Flood-I areas to city dairies through village cooperatives to 2.3 times pre-project supplies.

The second objective of the Operation Flood-I was to procure milk at a reasonable prices from the producer and thus help in increasing the standard of living of the rural poor. In this regard the report says that the efforts of the project have resulted in reduction of expenditure for milk. This has helped most of the people in obtaining additional supplies of other food. The project has helped the lower income groups. In the absence of such a scheme the private vendors would have increased the milk prices substantially.

Marketing of Milk

Evaluating the progress of the in-marketing of the milk, it can be said, the scheme has proved most successful in Bombay followed by Delhi and Madras. In Bombay and Delhi, the use of domestic milk supplies and utilisation of plants was commanding a high share of the market — 68 and 60 per cent respectively. The project has been very imaginative in methods of milk distribution. It has developed automatic vending units, big and small, where buyers get unadulterated milk from token-operated machines. Use also is made of plastic pouches and conventional bottles.

Dairy development schemes have helped in building up village cooperatives and a service sector for their efficient functioning. It was a bold step to entrust National Dairy Development to the small milk producers themselves through their cooperatives.

The creation of 10,000 village cooperatives involving over 1.3 million producers in 27 milk sheds in India by the end of Operation Flood-I, has been a massive achievement. Considerable strides also have been made in building up a structure through district cooperative unions with their own manufacturing and processing facilities. To ensure that the small producers have a say and stake in milk production and sale far beyond the confines of their villages, cooperative development on the "Anand" pattern follows genuine cooperative principles and practices. It has a producer orientation and participation. A scheme of integrated package of services for production, processing and marketing is followed. The professional management with member-involvement is introduced. It also gives facilities in the hands of the producers and the staff is also controlled by them. The experiment has shown how cooperatives can make a substantial impact on the income of small producers and the landless. Regular cash payments, a feature of the "Anand" pattern can definitely reduce the dependence and rural indebtedness amongst the milk producers. (PIB).

Telecommunications Revolution in the Indian Sub Continent

— T. V. SRIRANGAN *

TELECOMMUNICATIONS is any transmission, emission or reception of signs, signals, writings, images and sounds or intelligence of any nature by wire, radio, optical or other electromagnetic systems. It encompasses a bewildering array of services including Telephony and Telegraphy, Sound and Television Broadcasting, Navigation, remote sensing, supervision and control and telematics, the new and fast growing discipline of man-machine communications. It is an ever expanding realm, boundless in its reaches and limitless in its impacts on human society. The world is in the Age of Telecommunications.

Telecommunications has come a long way since the early days of the Telegraph, the Telephone and the Spark transmitter. There is perhaps no aspect of organised modern society which is not in some way or the other influenced by telecommunications in its varied forms. Microwave Radio Relay Systems, underground and submarine cables, geostationary satellite links, Sound and Television Broadcast Services, etc. girdle the globe and enable instant contacts among the peoples of the world, across the continents and the oceans. There is indeed a veritable aura of telecommunications pervading the earth.

The spectacular progress of electronics and its allied disciplines such as computers, earth satellites and fibre optics have ushered in a telecommunication revolution. Many new services have emerged. For example, instant dialled access from any part to any other point of the world, multipurpose information networks, universal subscriber terminals offering unified facilities for telephone, telex, video transmission and conferencing and storage, retrieval and display of data, long distance, high capacity transmission media and many innovative developments in sound and TV broadcasting have aided the process. Computer controlled electronic switching systems offer facilities not foreseen even twenty years ago and permit routing of signals from any origin to any destination, with immaculate precision and fidelity. All these have lent a new dimension to telecommunications. The ubiquitous telephone, the traditional symbol of telecommunication, continues to stride the arena like a colossus, but its supremacy is beginning to be seriously challenged by the universal terminal.

Telecommunications is no longer just a symbol of urban luxury or a means for the Government to administer the country. Nor is its role limited to aiding commerce and industry. It is being increasingly recognised as a catalyst of immense potential in the challenging tasks of national construction. As a carrier of message for instruction and education to all points in need of these essential developmental inputs, and as a means for interactive feedback and dialogue, it can trigger and even accelerate socio-economic development. It promotes cultural affinities, enhances mutual goodwill and binds togetter distant lands and peoples in the common fellowship of international understanding. And in a country such as ours, with its many remote areas and island territories, it gives to the latter a sense of identity and belonging, in a manner never before possible. This was brought home in memorable terms when the Prime Minister inaugurated in November last the first domestic remote area links *via* satellite from Delhi to Ladakh, Mizoram, Andaman, Nicobar and Lakshadweep. As the Prime Minister spoke to all those far away points in quick succession, there was visiable excitement and the responses from the distant ends were ecstatic. No better evidence was needed to show the contribution of telecommunications to national integration.

---

* Mr. T. V. Srirangan is Wireless Adviser to Govt. of India.

There is now an increasing realisation, particularly in developing countries, of telecommunications great potential to support nation building. Telecommunications is capital intensive, but investments thereon cannot be measured only in terms of the yardstick of direct financial returns. There are also invisible, immeasurable returns in socio-economic terms, in terms of better organised entities, more efficient operation of utilities, speedier progress of projects, greater learning opportunities for rural communities, improved farming and promotion of wholesome cultural and entertainment programmes. Improved telecommunications will also mean a filip to decentralised location of industries, relief to urban congestion and possibly some control in the migration of population from rural areas. In the context of the worsening energy crisis, telecommunication offers in many cases alternatives to the physical transport of people from one place to another.

There are presently large gaps between the developed and developing countries in respect of telecommunication technology and services. But earnest efforts are at last being made to bridge these in a reasonable time frame. But it will be no easy task. India continues to be low down on the global scale for telecom services. Paucity of resources has been the major constraint. However, telecommunication is now receiving a higher national priority and larger allocations of funds. An outlay of over Rs. 3,000 crores has been envisaged for public telecommunications in the Sixth Plan, a significant part of it directed to rural services. The launching of INSAT, India's multi-purpos domestic satellite carly in 1982 will open new vistas for point to point communication. Broadcasting and meteorological services has the potential for extending the benefits of telecommunications to all places in the country including remote and inaccessible points hitherto beyond easy or economical reach.

The assistance rendered by the Telephone and the Telegraph in conveying message about the well-being of individuals, families and communities is common knowledge. So also the facility offered by them to summon an ambulance or call a doctor or obtain badly needed medicines from another place. But new services and facilities are becoming possible. SITE showed how the TV medium can be beneficially used for health education and instruction. In the Pacific Ocean area far flung islands have been brought into a common telecommunication net PEACECAT via a Satellite on which expert advice, diagnosis and guidance for treatment are given to the remote parts for follow up locally within available medicare capabilities. Blood pictures, electro cardiograms, X-ray pictures and even the beats of the pulse and heart are transmitted instantly and over long distances for expert study, analysis and advice in quickest possible time. The progress of patients can be watched from a far by a group of experts centrally available to render service to large areas.

When epidemics strike, broadcasting services can be drawn upon in a big way to instruct and guide the affected people. Experiments conducted in recent times in the use of mobile medical care units in Ballabgarh area not far from Delhi, show how with good communication links timely and efficient health care can be assured from a central point to a wide, rural area. These are just a few random examples. And in the year of the disabled, it would be appropriate to cite just two instances of how telecommunication helps them. Special wireless communication sets have been devised for the deaf who do not respond to conventional hearing aids. Mini laser radars are being developed for the blind which offer greater freedom of movement by warning them of obstructions.
— *Courtesy AIR Spotlight.*

BIG INCREASE IN POWER OUTPUT PLANNED

To meet the growing demand for power, the Government has drawn a massive programme of energy development in the country. A total outlay of Rs. 26,500 crores has been provided for this sector in the Sixth Plan. This forms 28 per cent of the total plan outlay. The outlay on power sector alone is Rs. 19,265 crores which is almost 20 per cent of the total plan outlay in the public sector.

By the end of Sixth Plan, whereas coal production will be stepped up from 104 million tonnes to 165 million tonnes, the production of crude petroleum will go up by 10 million tonnes and petroleum products by over 9 million tonnes. There would be a big increase in power generation which will go up from a level of 112 billion units at the beginning of the Sixth Plan to 191 billion units at the end of the Plan.

The power sector has recorded a phenomenon growth during the last three decades and the generating capacity has increased from 2300 MW in 1950 to 31,000 MW in 1980. However, inspite of the huge growth of the power supply industry, it has not been able to keep pace with the faster growth in power demand. The Govt. has undertaken a number of short-term and long-term measures to achieve a faster growth in power output.

MORE RICE PROCURED

The procurement agencies have procured over 50 per cent more rice during the 1980-81 marketing season. Till July 25, 1981, the procurement has totalled up to 56.39 lakh tonnes. This is almost 19 lakh tonnes more than the procurement of 37.65 lakh tonnes till date last year. Compared to last year almost all States have contributed larger quantities to the Central reserve. Punjab led the other States with a procurement of 25.22 lakh tonnes with Haryana coming next with 6 67 lakh tonnes. The contribution of Andhra Pradesh so far has been 6.54 lakh tonnes and of Uttar Pradesh 5.78 lakh tonnes.

Outlook is Bleak for Oil-importing LDCs

THE external pressures on developing countries have shown little sign of easing over the past 12 months, according to the *World Development Report, 1981*, published by the World Bank. The *Report*, fourth in an annual series, draws particular attention to the "increasingly desperate predicament" of the poorest countries. The low-income oil importers, it says, "face the 1980s, which have started badly for them, with no sign of change in either their trade or their aid prospects." The *Report* this year is devoted to global and national adjustment in the world economy, It presents projections for the 1980s, in terms of a Low and a High case. The difference between the two cases depends on such factors as growth in the industrial countries, the extent of trade protectionism, domestic economic efficiency and the amount of external capital the developing countries obtain. The *Report* discusses in detail the assumptions behind these projections. There are separate chapters on the three key features of global adjustment—trade, energy and external finance. The *Report* devotes a chapter to studying how developing countries adjusted to external pressures in the 1970s, using case studies of individual countries to illustrate general themes.

Projections. While the outlook for oil-exporting developing countries is good, the oil-importers will improve on their performance in the 1970s of a rise of 2.7 per cent a year in GNP per person only if the High case is achieved. Under the Low case, they will manage an increase of 1.8 per cent a year, and only 0.7 per cent a year for the low-income oil importers.

This increase would not be enough to prevent a sharp increase in the number of people living in absolute poverty. From today's estimate of 750 million, the number of the absolute poor could rise to 850 million by the end of the century. Under the High case by contrast, their numbers could fall to 630 million. As the *Report* says, "the difference between the scenarios is not just one of growth rates, but a fundamental difference of outlook," not just for developing countries but for the whole world.

Trade. Despite a sharp slowdown in world trade during the 1970s, the non-fuel exports of developing countries grew faster—more than 6 per cent a year in the 1970s, compared with 5 per cent a year in the 1960s. "Trade has provided an avenue for growth and industrialization, and for the oil-importing countries, a source of earnings to meet their increasing fuel costs." However, the *Report* points out that only relatively few developing countries boosted their export earnings substantially. In 1978, only 10 countries, with 45 per cent of the developing world's population, supplied more than 75 per cent of its manufactured exports; and three countries, with less than 3 per cent of the population, supplied more than 40 per cent of the total. The low-income countries remained heavily dependent on raw material exports, which suffered both from deteriorating terms of trade and from sluggish demand.

The *Report* underlines the benefits that industrial countries gain from their trade with a buoyant developing world. From 1970 to 1978, developing country exports of manufactured goods to industrialised countries increased by almost $12 billion (at 1970 prices); but industrialized countries increased their manufactured exports to developing countries by almost three times as much. Concluding that, on balance, the degree of protectionism has not increased during the past 10 years, the *Report* states; "As long as the trading system remains open, the now-successful middle-income countries should continue to progress". For the low-income Asian countries, the *Report* says that over the longer term, their trade prospects are primarily a question of their own policies given an expanding trade environment. Should they adopt outward-looking economic policies, they could follow the road of the successful exporters. Low-income African countries, on the other hand, do not have the domestic base to take advantage of an open trading system. Until they have developed the infrastructure and, above all, the human skills, they will not be able to expand their exports significantly.

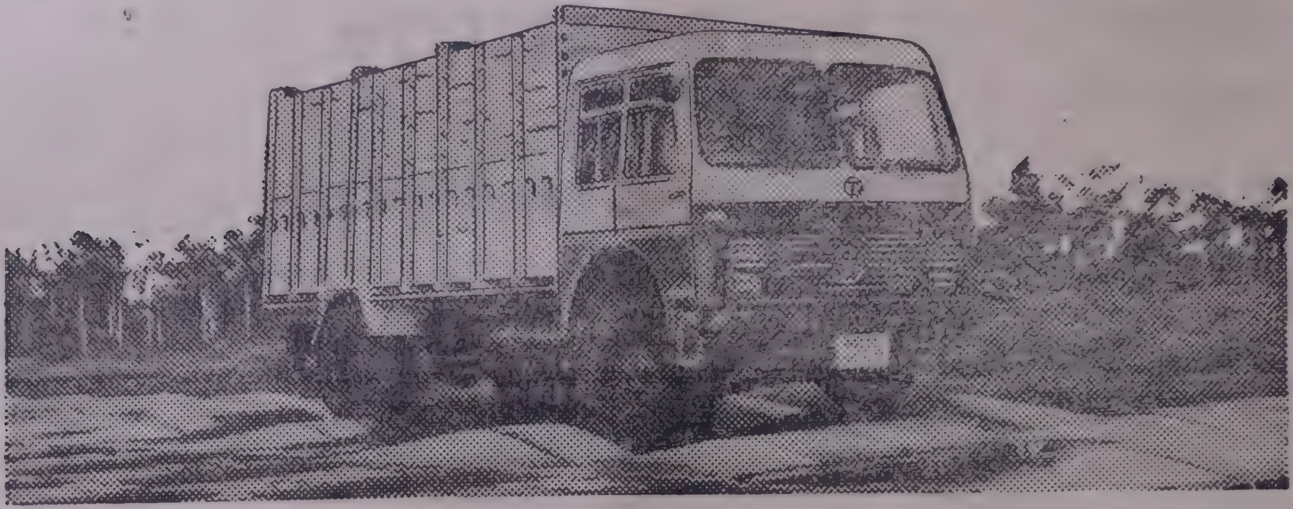
Energy. Although some countries can adjust to more expensive energy by boosting their exports and borrowings, the *Report* says, for the world as a whole, a large part of the adjustment must be made more directly, through changes in the supply and demand for energy itself. Some progress has already been made on the demand side. Nearly all governments are now conscious of the need to raise final energy prices to encourage conservation despite the political difficulties of doing so. Yet while industrialized countries can adapt their economies to conservation, the pattern of economic growth in developing countries—industrialization, urbanization—is increasingly energy-intensive.

On the supply side, progress has been slow. The *Report* estimates that, for oil-importing developing countries, around $40 billion a year (in 1980 prices) will be needed for their energy development. Since the energy market is a global one, there is "a strong incentive for all parties to help boost energy production in developing countries. No investments show a greater coincidence of the economic and strategic interests of the developed and developing countries," the *Report* adds.

Capital Flows. External borrowing is the bridge that allows oil-importing countries to finance their deficits while making the longer-term adjustments to bring those deficits down. In the absence of new external shocks, external capital requirements of the oil

(Continued on page 34)

We showed no mercy to our new TATA 1312/46...



...neither did over 130 operators who actually drove these 13-tonners mercilessly for days and nights on the country's highways and byways. In fair weather and foul.

TATA 1312/46—
the 13-tonne vehicle for the eighties that exceeded even the operator's expectations!

- * All-round sturdy design with highly fuel efficient 695 DI Engine
- * Higher Payload
- * Lower Life-cycle Cost
- * Increased Safety
- * Greater Profitability

New, longer-lasting, high-power 695 DI Engine

The efficiency of the new 695 DI Engine not only reduces fuel consumption; it also offers extra power and reduces operating costs

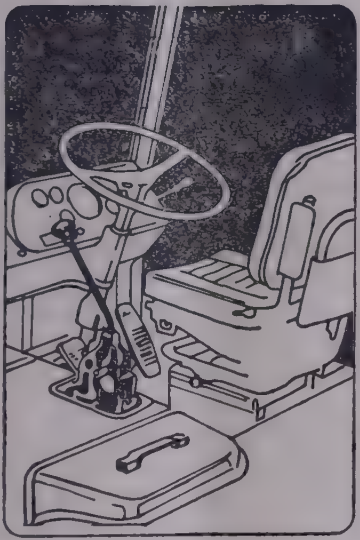
Bearing up well to the extra load

A new, sturdier front axle with heavy-duty bearings, a reinforced Banjo-type rear axle and reinforced suspension take the jolts and bumps of rough roads, and the stress and strain of heavy loads —in their stride.

A carrier assembly on the rear axle makes for ease of maintenance.

The TATA 1312 rides on 10.00 x 20 16-Ply rating Nylon tyres that are more suitable for carrying heavy loads. And what's more, even if you build a sleeper cab—you get a loading platform that is almost 6.15 mtrs. in length.

Effortless gear-changing



The proven TATA synchromesh GBS-40 Gear Box with a conveniently placed gear-shift lever, a favourite of operators, eliminates the tiresome double-declutching of a claw-type gear box.

More safety on wheels

The TATA 1312 has a Tandem Master Cylinder with independent circuits for front and rear axle brakes. In the unlikely event of brakes failing on any one axle, it ensures that the brakes on the other axle will work surely and effectively. Wider, thicker brake linings resist wear, last longer.

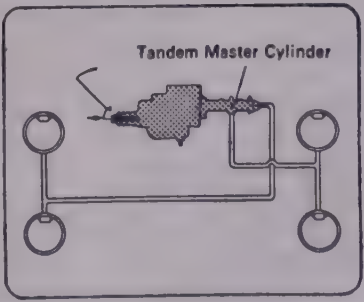
The fail-safe and parking brake systems ensure that rear brakes get applied automatically in case of failure in the air system. While parking on steep gradients, the spring-actuated fail-safe and parking brake provides greater holding capacity

Lower life-cycle cost

The sturdier, longer-lasting components, the highly fuel-efficient engine and the increased load-carrying capacity of the TATA 1312—all add up to lower overall life-cycle cost and greater profitability for you.

All good reasons to opt for the TATA 1312... and some more

Each component of the TATA 1312 has been carefully designed for maximum efficiency. There's also the reassurance of back-up service and ready availability of genuine Telco Spares whenever and wherever you need them from Telco's dealer network of over 147 sales and service centres countrywide.



In whatever way you add up the sum of its parts, the new TATA 1312 results in greater profitability. And isn't that what you're in the transport business for?

TATA ENGINEERING & LOCOMOTIVE CO. LTD.
BOMBAY • JAMSHEDPUR • PUNE

CHAITRA-T-632

(Continued from page 31)

importers are likely to decline as a ratio to their GNP, from the high level reached in 1980 (4.9%). But the decline will be gradual and current account deficits are likely to remain high compared to historical averages.

The *Report* says that the low-income countries can borrow very little commercially. They will continue to depend heavily on official, and mainly concessional, lending for financing their development and structural adjustment. But the *Report* emphasizes that the level and out look for Official Development Assistance is cause for serious concern to the low-income countries. Not only are aid flows unlikely to grow as fast as seemed possible a year or two ago, but they are still biased heavily towards middle-income countries. Some 63 per cent of all bilateral aid from OECD and OPEC countries goes to middle-income countries, much of it concentrated on four countries: Egypt, Israel, Jordan and Syria. "Reallocating concessional aid from middle-income to low-income countries is almost as important as increasing its overall amount," the *Report* says.

Adjustmet. The experience of the 1970s provides valuable lessons for the 1980s. In general terms, industrial countries increased their exports to the capital-surplus countries and slowed down their growth. Middle-income countrtes borrowed heavily in the capital markets; some also replaced imports and increased their export penetration of industrial country markets. Some low-income countries were helped by good crops, and more aid and workers' remittances. But African countries, especially, were beset by domestic problems and could neither increase their exports nor borrow much; they had to cut imports and suffer stagnation.

The *Report* highlights the importance of domestic economic policies: some countries possessing similar economic structures and natural resources nevertheless differed widely in the way they coped with difficulties. Certain key policy priorities are highlighted; raising domestic saving and investment, and using those resources efficiently; adopting a neutral approach as between export promotion and import substitution in the choice of exchange rates, taxation and subsidies; and, for primary producers, diversifying the range of commodities and markets.

Human Development. "The urgency of measures to increase the productivity and incomes of the poor directly is in no way diminished by a more adverse external environment, "says the *World Development Report;* "the measures themselves, however, and finance to support them, may be at risk.''

Several countries have already cut back human devlopment programmes; yet there are various ways of maintaining their efficiency. Better-off people can be charged for public services, costs can be shared with local communities and communications can be improved. Measures like these have been adopted in various countries, often to considerable effect. Human development programmes seldom use much energy. Nor do they require much foreign exchange. A large share of the costs are recurrent costs and for this reason they have received very little support from aid agencies. The *Report* argues that this bias against human development funding has been both illogical and harmful.

The recurring issues of food and population are discussed in the light of adjustment pressures. While there is little cause for alarm about another global food shortage to match the 1973-74 crisis, there are several disturbing features about the position today. World food markets face growing demands from middle income countries, a process that is bound to continue as incomes rise and more grain is fed to livestock. Internally, many countries' distribution and storage systems need considerable improvements if they are to meet the needs of the growing population.

The *Report* underlines the links between poverty and rapid population growth. Depending on their success in economic and social development, countries still have a considerable influence over the eventual level of their population. The *Report* estimates that the population of the developing countries could stabilize at about 7 billion if "replacement fertility" (about two children per couple) is achieved in 25 years' time. But if it is delayed for 45 years, the eventual stationary population would be over 10 billion. What happens now is thus of critical importance: "To future generations who inherit an over-crowded and under-nourished earth, any dereliction on the part of the present generation will appear shortsighted, indeed irresponsible," the *Report* warns.

This last point is one of many features of interdependence discussed in the *Report*. The health of the economies of the industrial countries is increasingly tied to that of developing countries, through trade and financial links, and especially in the markets for energy and food. These are immediate issues; and even the longer-term ones such as environment and population depend on action that has to be taken now. It is illusory, the *Report* says, for industrial countries to believe they can immunize themselves from the problems faced in the developing world.

EXPORT BY HEAVY INDUSTRIES

Public Sector Undertakings under the purview of Department of Heavy Industry have executed export orders worth Rs. 25 crores during June 1981. Cumulative exports from these undertakings during April June, 1981, amounted to Rs. 62 crores which was an increase of 9 per cent over the exports of Rs. 57 crores during April-June, 1980. These undertakings also secured export orders worth Rs. 18 crores during June 1981. This included an order worth Rs. 14.5 crores secured by Bharat Heavy Electricals Ltd. (BHEL) from Saudi Arabia for electrification of 72 villages and towns and expansion of 3 sub-stations. This follows the successful completion of Rs. 72 crores contract by BHEL for setting up 42 mW power station in Saudi Arabia. Orders pending for execution with these undertakings stood at Rs. 818 crores at the end of June, 1981, which inter-alia included Rs. 541 crores with Engineering Projects (India) Ltd.

Another Good Year for L&T Group

DURING the year ended March 31, 1981, the sales of Larsen & Toubro Limited reached Rs. 144.7 crores against Rs. 122.9 crores in 1979–80, registering a growth rate of 18 per cent. The group's sales turnover was much higher, at Rs. 203.3 crores. During 1980–81, L&T earned a dividend income of Rs.79 lakhs from its subsidiary and associate companies. L&T's pre-tax profit, which stood at Rs. 15.77 crores in 1979–80, improved to Rs. 21.70 crores in 1980–81. The after-tax profit amounted to Rs. 9.80 crores, compared to Rs. 8.07 crores in the previous year. The equity dividend recommended is Rs. 2 per share of Rs. 10. The Directors have also recommended the issuance of 86.49 lakh bonus shares in the ratio of 3:5.

Production during the year was valued at Rs. 111 crores. Highlights on the production front included the installation of a sophisticated drilling machine costing Rs. 93.5 lakhs and a computer-controlled wire cut machine. During the year, the company executed some prestigious orders from, among others, BARC and Hindustan Steel. L&T's switchgear factory has added another air circuit breaker (1600A) to its range. The Poclain excavators manufactured in its Bangalore unit are well received in the market. Work on the company's cement project at Chandrapur is progressing according to schedule. It is expected to be commissioned by February 1983.

Among the company's subsidiaries, Engineering Construction Corporation Limited has shown a turnover of Rs. 30.7 crores during the year ended September 30, 1980. During the same period, Utkal Machinery Limited recorded a turnover of Rs. 24.6 crores. The company is supplying high speed paper making machines to some of the public sector projects. The sales of EWAC Alloys Limited during 1980 amounted to Rs. 4 crores and those of L&T McNeil Limited were also of the same order. L&T Singapore subsidiary —Larsen & Toubro (Singapore) Pte Limited – is expected to go into production later this year.

Among L&T's associate companies, Audco India Limited recorded a sales turnover of Rs. 7.3 crores (year ended September 1980) against Rs. 5.8 crores in the previous year. The company has obtained a letter of intent for the manufacture of oil drilling equipment. During the same year, Tractor Engineers Limited registered sales valued at Rs. 3.9 crores.

Tisco Records Higher Turnover, Profit

THE turnover of the Tata Iron and Steel Company Limited during the year ended March 31, 1981 amounted to Rs. 521 crores, compared to Rs. 455 crores in the previous year, thus recording a growth of 14 per cent. This is due to (a) the increase in the prices announced by the Government in February 1981 and (b) a marginal increase in the volume sold. The company's pre-tax profit more than doubled from Rs. 25 crores in 1979-80 to Rs. 52 crores in 1980-81. The after-tax profit, which stood around Rs. 16 crores, increased to Rs. 26.46 crores. Retained earnings have improved from Rs. 31 crores to 41.60 crores. The company has stepped up its equity dividend from 13.50 per cent to 15 per cent. The Directors have given the option, to the preference share holders, of converting Rs. 11.40 crores worth of non-redeemable preference shares into non-convertible bonds. They have also recommended the capitalisation of Rs. 20.58 crores by issuing bonus shares in the ratio of 2:5. The company also proposes to issue convertible bonds worth Rs. 30 crores to meet part of its working capital requirements. With a face value of Rs. 300 crores of which Rs. 100 will be convertible (into equity share of the same value) the bonds carry an interest of 13.5 per cent.

The financing plan for the company's modernisation programme has almost been wrapped up. It includes an I.F.C. credit worth $38 million and a sterling loan worth £14 million, apart from a rupee loan of Rs. 100 crores from the Steel Development Fund and a consortium loan of Rs. 25 crores organised by IDBI.

Telco Scales new Heights in 1980-81

DURING the year ended March 31, 1981 the sales of Tata Engineering and Locomotive Company Limited rose to Rs. 609.65 crores from Rs. 448.27 crores in 1979-80, thus recording a growth of 36 per cent. But for the inadequacy of power supply during the first 8 months of the year, the turnover would have been much higher. Following this sales growth, the company's pre-tax profit showed an improvement from Rs. 17.62 crores to Rs. 24.37 crores. With no tax liability, the after-tax profit remains at the same level. Equity dividend is maintained at Rs. 20 per share. The company proposes to issue bonus shares in the ratio of 2:5 by capitalising Rs. 11.69 crores from the reserves.

Production at the company's Jamshedpur plant rose only by 10.7 per cent, from about 20,000 vehicles to 22,151 vehicles. At the Pune plant, it rose by over 55 per cent, from 9,108 units to 14,161 units. The company introduced another new vehicle—LPT 1312 —in the market. Incorporating improved features, the vehicles is expected to be received well in the market when sales on commercial scale commence. The number of TELCO vehicles sold rose from 30,232 to 36,248—an increase of 20 per cent. The amount realised from the sale of spare parts increased from Rs. 43.80 crores to Rs. 51.31 crores. The company's export sales rose from Rs. 46.95

crores in 1979-80 to Rs. 52.43 crores in 1980-81. This makes TELCO the largest engineering exporter in India in 1980 81.

TATA Oil Mills Earns More

THE income of the Tata Oil Mills Company Limited during the year ended March 31, 1981 amounted to Rs. 150.54 crores, compared to Rs. 105.95 crores in the previous year. The company's pre-tax profit stood higher, at Rs. 4.77 crores, against Rs. 3.32 crores in 1979-80. The after-tax profit amounted to Rs. 2.40 crores, compared to Rs. 1.52 crores in the previous year. Equity dividend is maintained at Rs. 5 per share. The company proposes to issue bonus shares in the ratio of 1:5 by capitalising Rs. 1.06 crores from the reserves.

Mahindras to Embark on Major Expansion

In a major expansion programme costing Rs. 75.78 crores, Mahindra & Mahindra Ltd. has planned to enlarge and modernise the manufacturing facilities for jeeps, light commercial vehicles and tractors, as also to up-date the diesel engine technology. This was announced by Mr. Keshub Mahindra, Chairman, at the extrordinary general meeting of the company held on July 31. The entire programme is expected to be completed by 1984. Mr. Mahindra stated that the installed capacity of 15,000 units per annum for jeeps and light commercial vehicles (as of 1979) will be expanded to 25,000 vehicles per annum. As part of this programme, the new plant at Nasik will cater exclusively to the assembly of light commercial vehicles. Concurrently, the manufacturing capacity of tractors is also being expanded from 10,000 as of 1979, to 15,000 per annum. The financing arrangement (cost Rs. 75.78 crores) is made up of loans aggregating to Rs. 56.56 crores and internal cash generation amounting to Rs. 19.22 crores. Including the intererst on loans during the project period, and the additional working capital, the total project cost will be Rs. 110 crores.

An investment agreement has been signed with the International Finance Corporation, for a loan of $15 milllon (Rs. 12.39 crores). Arrangements for loans from the all-India financial institutions and Banks are in an advanced stage. At the same time, steps are being taken to avail of project finance from the Export Credit Guarantee Department of U K , and a sales tax incentive loan from the State Industrial & Investment Corporation of Maharashtra (SICOM).

The company's R & D department had adapted a diesel engine of the International Tractor for use on the Mahindra range of vehicles in 1974. Since then, a technical collaboration agreement has been signed with Automobiles Peugeot, France, for the progressive manufacture of the fuel efficient XDP 4.90 model of the diesel engine which will be manufactured in a plant to be set up at Igatpuri—70 miles from Bombay, on the highway to Nasik.

Bombay Dyeing Sets up Units Abroad

THE sales of Bombay Dyeing and Manufacturing Company Limited showed a modest growth of 9.5 per cent, from Rs. 112 crores in 1979-80 to Rs. 122.58 crores in 1980-81 (year ended March 31). The company's pre-tax profit stood at Rs. 5.01 crores against Rs. 5.34 crores in the previous year. The tax provision being nil, the after-tax profit remains at the same levels. Equity dividend (interim and final) is Rs. 3.50 per share. Higher cotton prices due to a short crop affected the working results. Competition from imported fibres and yarn was less severe due to the rising prices of imports. Despite several adverse factors, the company was able to maintain its exports at Rs. 22.41 crores against Rs. 22.25 crores in the previous year.

The company has made sizable investment on modernisation by installing Rs. 6.75 crores worth of new machinery in its units. It has received the approval for the import of 120 more Sulzer weaving machines, to bring the total to 428 Sulzer machines. The company's Rs. 65-crore DMT project has received the Government's approval. The plant will be set up at Patalganga, a backward area in Maharashtra. It will have a capacity of 60,000 tonnes per annum. Among its foreign collaboration projects, production has started at the P.T. Five Star Industries Limited, Bandung, Indonesia. The company is collaborating with a Singapore firm in setting up a textile mill in Sri Lanka.

Excellent Year For Hindustan Motors

The sales turnover of Hindustan Motors Limited during the year ended March 31, 1981 improved to Rs. 237.90 crores, from Rs. 158 crores in 1979-80. The company's after-tax profit has gone upto Rs. 5.60 crores compared to a meagre Rs. 50,427 in 1979-80. During the year under review, the production of cars increased to 24,214 units and of trucks to 2,842 units as against 18,836 and 1,694 respectively, in the previous year. The Earthmoving and Heavy Engineering Divisions also produced significantly larger quantities of dumpers, loaders, crawler tractors and shovels. In the field of export too, the company's earnings increased to Rs. 7.28 crores in 1980-81 from Rs. 2.59 crores in 1979–80.

The company has made steady progress in its programme for the modernisation of the passenger car division. Arrangements for the import of capital goods required for the project have already been made. The total capital outlay for this project is estimated at Rs. 28.5 crores. Of this, foreign exchange component will be Rs. 7.08 croees. The company has entered into an agreement with Vauxhall Motors Ltd. of U.K. for the manufacture of heavier commercial vehicles. The Government has also permitted the company to take up the manufacture of diesel engines, power shift transmission and torque convertors usable in various applications. A collaboration agreement with General Motors Corporation for the manufacture of these items has been executed. Necessary preparations are under way to set up a factory for the purpose in Tamil Nadu.

SOUTHERN
ECONOMIST

September 1, 1981

CONTENTS

EDITORIAL 1
Not Yet out of the Wood

CURRENT TOPICS 2
Higher Export Target; Nairobi Action Plan; More and Better Cars; Coffee and Tea; Public Sector Shipping; OPEC

Who Says Mrs. Gandhi is Wrong? 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Prospects for the Developing World: Review of Recent Forecasts
By Shahid Javed Burki
Third World's Crisis and the Relevance of Do-It-Yourself Philosophy
By Andre van Dam
Global Energy Situation: Prospects for 1985-2000
By A. R. Prasad
Scope for Tapping Renewable Sources of Energy
Self sufficiency in oil: ONGC's Role
By P. T. Venugopal
Road Development: Need to Improve National Highways
By Sardar Buta Singh

BOOK REVIEWS 29

BANK RESULTS 31
United Commercial Bank; Bank of Rajasthan; Bank of Madura; Dhanalakshmi Bank; Ratnakar Bank

COMPANY NOTES 32
East India Hotels; GEC; Coromandel Fertilizers; English Electric; Pfizer Limited

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Not Yet out of the Wood

THE Finance Minister, Mr. R. Venkataraman's claim that inflation has been rolled back into a single digit and that the economy is on the growth path again is not fully substantiated by empirical evidence. Going by the wholesale price index, Mr. Venkataraman was probably right in stating in the Rajya Sabha that the inflation rate is close to 10 per cent this year, compared to nearly 15 per cent in 1980 and 22 per cent in 1979, but the ordinary housewife has reason to doubt this claim. The prices of edible oil and pulses are at their peak and those of cereals and sugar are still high, when measured by the purchasing power of the poorer sections and the middle class. Inflation can be said to have been beaten only if the common people are afforded relief from the present high prices. When inflation does indeed get back into a single digit, the hard-pressed housewives will rush to the Finance Minister to overwhelm him with garlands of roses and marigold.

Meanwhile, one may list some of the brighter features of the economic scene. There has been an increase of nearly 7 per cent in real GNP, in contrast to a fall of 4.5 per cent in 1979-80. Agricultual production is up by 18 per cent and industrial production is estimated to have risen by some 3 per cent. It should be possible to improve upon this performance during the current year, 1981-82, since the infrastructure bottlenecks are broken: The Railways are moving more freight, coal production has picked up and there has been a marked improvement in power generation. What is more significant, agricultural production is expected to be maintained at the previous year's level, which means that one can expect another bumper harvest this year.

What is surprising is that, inspite of these encouraging portents, one discerns a crisis atmosphere in the country, as evidenced by (a) the deployment of precious foreign exchange for the purchase of sizable quantities of wheat, sugar and edible oil; (b) a needlessly restrictive credit policy which tends to slow down production; (c) the failure to maintain a tight rein on Government expenditure and (d) New Delhi's inability or reluctance to control the growth of unaccounted money. In most policy measures, one discerns a pathetic lack of willingness to face facts and choose hard options. How can Mr. Venkataraman expect the inflation rate to come down when he allows indiscriminate, *ad hoc* increases in administered prices on cost-plus considerations? How can he expect a return to price stability when he is not able to cover the deficit in the budget by economy measures— and not through beastly increases in the prices of petroleum products, fertilisers and so on? Does the shifting of ministers and the secretaries from one department to another constitute a measure of improved efficiency? If the price situation is really returning to normalcy— inflation being a major cause of labour unrest— where was the need, then, to bring in legislation empowering the Government to ban strikes and lock outs? If as Mr. Venkataraman claims, everything is rosy, where was the need to approach IMF for a massive loan of 5 billion SDRs?

CURRENT TOPICS

Higher Export Target for 1981-82

THERE is not much difference between the export target suggested by FICCI in its export plan for 1981-82 and the Commerce Ministry's tentative goal. At Rs. 8,400 crores for 1981-82, the Government's target is lower than the FICCI projection of Rs. 8,600 crores by only Rs. 200 crores. This reflects an identity of approach between the Government and the private sector. It augurs well for the success of the export drive which is necessary for getting over the balance of payments hump. Considering that the country was able to achieve higher export growth rates during the commodity boom of the seventies, a 20 per cent growth in exports in 1981-82 is not unattainable. Actually, a growth of this order was achieved during the first two months (April-May) of 1981-82. Exports during these two months amounted to Rs. 1,010 crores compared to Rs. 837 crores during the corresponding period of 1980-81. Whether this trend will be maintained in the remaining months of the year one cannot be certain.

Export trends in 1980-81 engender cautious optimism. From Rs. 6,578 crores in 1980-81, India's exports have increased to around Rs. 7,100 crores in 1980-81, which was the targeted figure. This works out to a growth rate of around 10 per cent. What renders a more vigorous export effort necessary is the growing trade deficit. The trade gap, which was Rs. 2,449 crores in 1979-80, has widened to around Rs. 5,500 crores in 1980-81. This was mainly because of the sharp rise in the oil import bill which amounted to Rs. 5,200 crores in 1980-81, thus eating up more than 70 per cent of the country's export earnings. And the anticipated import growth of around 40 per cent in 1980-81 is more a reflection of the oil price rise than of any quantitative increase. While exports by themselves cannot be expected to cover the entire balance of payments deficit, the major burden of financing the BOP gap falls on exports. This may be explained by (a) the likely reduction in the inward remittances of Indians working abroad and (b) the uncertainty over accruals under "invisibles" like tourism and shipping.

Be that as it may, things are looking brighter and 1981-82 forms a good starting point for a sustained export effort in the eighties. In a large country of India's size, the size of the exports hinges mainly on the increase in agricultural and industrial production. In 1980-81, agricultural production increased by 19 per cent and industrial production has shown a modest growth of 4 per cent with GNP, in real terms, growing by around 7 per cent. Therefore, the 1981-82 exports will suffer less from production constraints than the exports of the previous two years. As to the measures to be adopted for increasing the export earnings, the policy package already announced should be adequate provided the private sector takes full advantage of it to step up exports.

For one thing, imports needed for export production have been liberalised and 100 per cent export-oriented units have been accorded free trade zone-like treatment. For another, institutional arrangements for export financing have been strengthened. In addition to the role played by ECGC and the commercial banks, the proposed Export Import Bank will provide the financial infrastructure which was lacking so far. As Mr. Pranab Mukherjee, Union Commerce Minister, observed recently, while measures of export promotion and import substitution will be pursued vigorously, there will be no resort to indiscriminate import substitution. It is being increasingly realised that export expansion measures are more conducive to increased efficiency than measures of import substitution which tend to weaken the country's competitiveness on the export front. But where production potential exists, as in the case of cement, caustic soda, fertilisers, paper and edible oils, surely, it will not be in the best interests of the country to import such items. *Ad hoc* imports have a logic of their own but, in the medium term, advantage lies in providing greater incentives to domestic production through the leverage of pricing, taxation and so on.

Commodity-wise, some of our staple exports like tea, cotton textiles and jute manufactures will face tough competition but even here, special efforts are needed to retain the country's share in the world market. In the non-traditional sector, items like engineering goods, basic chemicals, handicrafts and woollen manufactures have registered rates of growth ranging from 30 per cent to 60 per cent. It is these items, as also items like gems and jewellery, marine products, oil cakes and spices which may help in reaching the export target of Rs. 8,400 crores tentatively set for 1981-82.

Nairobi Action Plan A Non-Starter ?

THE United Nations Conference on New and Renewable Sources of Energy, which concluded at Nairobi on August 22, endorsed a plan of action which lacked financial ballast. While recognising that the developing countries needed about $ 54 billion—a figure mentioned by the World Bank in its report on energy— for energy development, the conference could not agree on setting up an energy affiliate of the World Bank because of the reluctance of the United States to go along with the rest. While the Americans recognised the need to raise additional funds for reducing the dependence of LDCs on oil and other fossil fuels and to develop alternative energy sources, they did not commit themselves to any specific financial target tied to a time-bound programme. The focus has now shifted to the Mexico meeting scheduled for November. As recommended by the Nairobi conference, this meeting is expected to take a closer look at the Nairobi plan of action. An interim committee is expected to hold the baby until the U. N. General Assembly takes further action on the Nairobi plan.

That the dimensions of the crisis facing the Third World was not fully appreciated by the richer petroleum-importing nations constitutes a sad commentary on their sense of responsibility. The balance of payments deficit of the developing nations has widened to an alarming extent, as a result of the sharp rise in the price of oil and the sluggishness in their exports. They are finding it increasingly difficult to remain solvent despite the efforts of IMF and the World Bank to extend short and medium term finance to these countries to reduce their BOP deficit which is projected to be close to $ 100 billion. The energy strategy of the Third World has a bearing on their balance of payments crisis since a quicker transition to non-fossil fuels will enable them to reduce their oil imports. Furthermore, they need enormous amounts of money to exploit the available conventional sources fully. If the United States had endorsed the suggestion for setting up an energy fund within the World Bank, it would have helped, in a small way, in bringing about a change in the pattern of energy consumption in the developing countries.

In the absence of an international agency of this kind— the World Bank's current programme provides for only $ 13 billion during 1981-85— LDCs will have to fall back on their own meagre resources and their native genius for improvisation. A more rational use of fuel wood will reduce the rate of the depletion of their forest wealth; the LDCs can also take up a programme of afforestation more seriously in order to make up for the trees felled. Simple things like the use of better charcoal stoves (for cooking) will lead to more efficient heat transfer. There is also vast scope, in many developing countries, for tapping the unused hydel potential. Countries in tropical and sub-tropical regions enjoy abundant sunshine. Apart from the direct use of solar energy for house hold uses, its conversion into electricity through photovoltaic cells is feasible provided the cost of this process is brought down through a technological breakthrough.

Among the developing countries, India is a pioneer in the use, still on a very modest scale, of solar energy and biogas. It has a fairly ambitious programme for setting up biogas plants in the villages. If this programme proves successful, it should result in an enormous saving in the use of kerosene for cooking purposes, in addition to the saving in the use of chemical fertilisers. India provides the case-study of a developing country which is struggling to cope with the problems thrown up by high oil prices. Its four-fold approach, namely, intensification of the exploration of oil and natural gas, a transition from the use of oil to that of coal which is available in plenty, more efficient use of fossil fuel sources and a serious attempt to develop renewable sources, commends itself for the developing nations which are similarly placed.

More and better Cars: How Soon?

THE Industry Minister, Mr. N.D. Tiwari's indication that cars will roll out of the Maruti complex by 1983 belongs to the genre of wishful thinking. Only four months are left in 1981 and with another year left for tying up the collaboration deal, importing machinery and organising production, only an incurably optimist can say that Maruti will market its car in 1983. The only newsworthy thing that has happened so far concerning Maruti is the rejection of the Gupta Commission's findings on the Maruti affairs. But that belongs to a forgotten era.

Some one in *Udyog Bhavan* must have wrongly briefed Mr. Tiwari who has just moved from *Yojana Bhavan*. The gestation period for a new automobile plant—the plant to be set up at the Maruti premises will be a completely new one — can be three years, even assuming that there will be no delay in the import of equipment, installing the plant, recruiting personnel and conducting trial runs. Sanjay Gandhi took twice this time only to come out with road rollers and bus bodies instead of cars but that is another story.

To be sure, there is no dearth of collaboration offers. Renault and Peugeot (both French), Volkswagen (German), British Leyland (British) and Toyota (Japanese) are all in the picture although some of them may not have come out with formal offers. Incidentally, the Chief of the Italian firm of FIAT, who was in India some months ago, did not think highly of the Maruti project, as conceived at present. When the Minister of State for Industry, Dr. Charanjit Chanana, was in London last February, he discussed collaboration possibilities with both BL and Ford but there does not seem to be any follow-up on these proposals. While the capacity envisaged for Maruti — one lakh cars per annum — is nearly four times that of either Hindustan Motors or Premier Automobiles, the two existing car manufacturers in the country, it is miniscule by international standards. This probably explains the reluctance of some of the foreign firms to provide collaboration. The offer of the bait of the buy-back stipulation (to the extent of 50 per cent of the production) does not appear to have tempted them in view of the slump in the world automobile market. The financing scheme of the project remains equally uncertain. Although Maruti has been approved by the Planning Commission, in principle, the Sixth Plan target for the automobile industry does not seem to envisage any addition to the car manufacturing capacity. If, as hinted at by Dr. Chanana earlier, the foreign collaborator is to asked to put up 40 per cent of the equity capital, Maruti will cease to be a 100 per cent public sector project.

The Government has given the green signal to both the private sector car manufacturing units to up-date their models. Hindustan Motors, the manufacturers of Ambassador cars, are going ahead with modernising their car manufacturing unit at a cost of Rs. 28.5 crores, in collaboration with Vauxhall of U. K. How they will build into this Vauxhall model (1977) fuel efficiency features of later years remains to be seen. Similarly, Premier Automobiles, manufacturers of FIAT models, are expected to seek the help of their Italian collaborators. Both these firms face the prospect of their new models fighting a losing battle against a public sector product which could well have an edge in terms of fuel efficiency, passenger comfort and price. Would it not have been better if, instead of allowing the two private sector units to give a cosmetic touch to their out-dated products, at considerable cost in terms of share holders' money, the Government had asked both these firms to merge so that a really good, fuel efficient, economic model can be produced in two factories—one at Calcutta and another at Bombay — on a scale of say, one lakh units per annum?

Coffee and Tea : Divergent Trends

WHILE the prices of tea have been declining since the beginning of 1981, coffee prices have firmed up in the recent months after an easy spell earlier. To be sure, coffee prices may not hit the roof this time, as they did in 1975 after the disastrous frost which almost destroyed the Brazilian crop, but something similar has happened there. Due to a severe spell of cold weather, the coffee crop in Brazil has been damaged and the harvest for 1981-82 (beginning with October) may be lower by 30 per cent, if not more.

Since the full extent of the damage to the Brazilian crop is not yet known, the market still seems to be in two minds, but the very fact that there will be a short crop has led to a hardening of coffee prices by around 30 per cent. World coffee production in 1980-81 is estimated at 80.7 million bags, against the revised estimate of 81.4 million bags (of 60 kgs,) in 1979-80. The world surplus during 1981-82 should be around 8 million bags. Therefore the buyers are unlikely to push up prices beyond reasonable limits.

In India, blossom estimates place the coffee crop at 1.21 lakh tonnes for 1981-82 (year beginning October) against 1.15 lakh tonnes for 1980-81 and 1.50 lakh tonnes in 1979-80. These estimates, coupled with the Brazilian factor, have led to a hardening of prices in export auctions but July-end prices were marginally lower than mid-June prices. The small size of the coffee crop in India and the export bias of the Government — understandable in the context of the need to earn more foreign exchange — seem to be working against the interests of the domestic consumers.

Except for the year 1978-79, coffee exports have recorded a steady upward trend, reaching 86,700 tonnes in 1979-80. Over the 5-year period, exports have grown by 80 per cent, reaching annual export earnings of about Rs. 200 crores. Exports in 1980-81 are likely to be of the same order as in 1979-80, if one considers that the ICO quota is 66,000 tonnes and the quantity contracted for export to USSR is around 25,000 tonnes per year. Internal releases have averaged 46 to 47 thousand tonnes, over the past three years, and since production in 1980-81 is likely to be lower, these releases may not go beyond this level in the current coffee year. If this is any indication, prices in the pool sales will remain firm in the coming months.

As the Commerce Minister, Mr. Pranab Mukherjee admitted in the Rajya Sabha last week, the tea industry is facing a crisis, with prices in the export market showing a steady decline. A situation of over-production seems to be evident. World tea production in 1980 is estimated at 1,015 million kg. — 8 million kg. higher than in 1979. India's tea production during 1980 reached a record level of 576 million kg. although production in South India was lower by 8 million kg. While the share of Indian tea in global exports has been declining, the figures for the first ten months of the financial year, 1980-81, reveal a slight improvement over the previous year. During this period, India earned Rs. 350 crores on an export of 191 million kg. against Rs. 323 crores earned on about 177 million kg. in the corresponding period of 1979-80. But the producers, particularly those in the southern region, are hard hit by the steady decline in export prices during the current year and the mounting costs. As pointed out by the Union Commerce Minister, the planters are losing around Rs. 2 per kg. on their production in some areas. Since tea is a major exchange earner, there should be no delay in offering fiscal concessions to the tea industry so that it can retain its hold on the export market in the face of stiff competition from Sri Lanka and East African countries.

Public Sector Shipping Forges Ahead

THE Shipping Corporation of India, which constitutes the public sector of shipping in India today accounts for more than 50 per cent of the nation's tonnage. Out of a total of 5.8 million GRT (gross registered tons) SCI's share is 3 million GRT. With further acquisition of 47 vessels, at an estimated cost of Rs. 800 crores, during the Sixth Plan, the Shipping Corporation will have attained a dominant position in the Indian shipping industry which is expected to increase its tonnage from 5.8 million GRT to nearly 8 million GRT at the end of 1985.

What is noteworthy about the progress of SCI is that it has been able to survive the recent lean period when most shipping companies went into the red. Actually the Corporation earned a net profit of Rs. 17.40 crores in 1980-81, against a loss of Rs. 37 crores in 1979-80. SCI's fleet of 147 vessels consists of a wide variety of ships capable of meeting the country's diversified needs in the area of foreign trade. The pattern of future acquisitions will, of course, be in favour of containerised vessels since the trend is towards containerisation.

SCI is also justified in strengthening its liner services to the neighbouring countries — particularly to the ports of east and west Africa. The emphasis laid on the acquisition of more bulk carriers is explained by the growing importance of items like iron ore, fertilisers and foodgrains in India's trade. SCI's support to indigenous shipbuilding is evident from the large number of Indian-built vessels it has in its fleet. This is noteworthy when one considers that Indian shipowners in general have shown a decided preference for foreign-built vessels.

OPEC: the Saudis Have Their Way

IT is not surprising that the unscheduled meeting of OPEC held in Geneva on August 19 could not agree on a price revision upwards. Saudi Arabia, which accounts for nearly 50 per cent of OPEC's output, has refused to increase its price from the present level of $32 a barrrel—the lowest charged by any OPEC member. Prices charged by other members of the oil cartel vary from $35 to $41, with the Libyan crude fetching perhaps the highest price. Since oil trade is highly cartellised, prices can still be manipulated by adjusting the level of production. In other words, the OPEC can fix a higher price and make it stick if, at the same time, it can successfully persuade its members to effect cuts in production. But Saudi Arabia, the king pin of the entire pricing system, has not resorted to this device for fear that oil price-induced inflation in the industrial countries would actually bring down the real price of oil to the exporting countries.

While Saudi Arabia has maintained the level of its production, OPEC's output as a whole is significantly lower than in any previous year. In spite of this, there is more oil afloat than what the market can take, at the OPEC-dictated prices. This explains why spot prices as well as the price of oil traded between nations have steadily fallen, in the recent months. One can discern some long-term influences at work. Continued rise in oil prices over the seventies has caused a decline in consumption which may have resulted, in some cases, in slower growth of GNP but industrial countries may also have succeeded, to a limited extent, in using the energy more economically and efficiently. The balance of payments constraint faced by developing oil importing countries has also dampened the demand for oil.

It is in the light of these factors that IMF's latest *World Economic Outlook* has predicted a 3 per cent decline in oil consumption in 1981. OPEC or no OPEC, the level of oil production in a country is dectated by its need to force the pace of development. Densely populated countries like, for instance, Nigeria, are under greater compulsion to earn more by oil exports than say, Saudi Arabia, which has a small population and where prospects for investment within the country are rather limited. All in all, the near-term outlook for the importers of oil is good since, besides the factors mentioned earlier, more of non-OPEC oil is coming into the market. But the long-term outlook remains sombre in view of the fact that oil resources are bound to get depleted, over the decades, even making allowance for new discoveries which may make up for this reduction to some extent.

Who Says Mrs. Gandhi is Wrong?

By **K. N. S.**

EVER since Mrs. Indira Gandhi returned to power in January 1980, the Indian political system is undergoing a process of change which, if allowed to run its full course, may result in a break up of the existing institutions and the establishment of an authoritarian system. I had occasion, in these columns, to comment on several aspects of this phenomenon in the past. If I am tempted to revert to the subject again, it is because recent developments confirm one's gloomy forebodings to a very large extent.

Before touching upon these developments, let me assert that the trend towards personalised rule cannot be attributed wholly to Mrs. Gandhi. Circumstances made possible a return of Mrs. Gandhi. As an astute politician, she is doing everything in her power to consolidate her position. What is happening in India is not totally different from what has happened in most developing countries—South Asia, South East Asia, Africa and Latin America. Neither the Westminster-style democracy nor the democracy of the American type has succeeded in most LDCs. If the present drift continues, India may join the ranks of these countries very soon.

One indication of this drift towards an authoritarian system is the weakening of the opposition parties and their loss of credibility. Congress (U), the group which broke away from the Congress party headed by Mrs. Gandhi when she was in political wilderness by making authoritarianism the major issue is disintegrating, thanks to the adverse verdict of the Election Commission and the "revolt" of the group led by Mr. Jagjivan Ram. Even before these happenings, the party was already demoralised by Mr. Y. B. Chavan's exit. These three developments have triggered defections from Congress (U) to Congress (I) on a fairly large scale. The thinning out process remains quite pronounced in the very home state of the Congress (U) President, Mr. Devaraj Urs. With Congress (U) virtually facing extinction and with the Bharatiya Janata Party, the Janata Party and the Lok Dal too disorganised to pose a serious threat to the ruling party, Mrs. Gandhi is under no compulsion to observe the rules of the game.

The checks and balances that provide the under-pinning for democracy are in the process of being removed, not as crudely as dictators do, through decrees, but through pressures exerted at different levels. The judiciary gets demoralised by frequent transfers of judges; the same thing happens to the administration if it is pushed and shoved a bit too much. By chanting the name of the supreme leader, petty politicians can hamper the working of the law and order machinery — the police to be precise. There have been scores of instances of their having used the law and order machinery to serve their own ends.

Demoralisation of the opposition parties has coincided with the erosion of inner-party democracy in Congress (I). Party units at the state level have become mere appendages of the leadership at the Centre. State-level leaders — Chief Ministers to be precise — are chosen not through majority consensus among the MLAs but by the supreme leader through the application of the criterion of personal loyalty. In the past, whenever there was a tussle for state-level leadership, the issue used to be settled at the state legislature party meeting, in the presence of a member of the Congress Parliamentary Board. Today, the elected leaders have virtually surrendered this right to choose their man. During Sanjay's time, the choice made by him would normally receive the nod by Mrs. Gandhi. After Sanjay's death, the mantle appears to have fallen on Rajiv. This explains why Antulay, Gundu Rao and Anjiah—all Sanjay nominees—are keen on finding the right wave-length with Rajiv Gandhi. If Pahadia's exit is any indication of the shape of things to come, there are possibilities of more Chief Ministers being replaced in the coming months.

Since the over-riding consideration is the survival of the person who heads the State Government, unsound, crowd-pleasing policies are adopted, often through ordinances. These measures are further embellished with plain gimmickry like the unveiling of statues, the blatant display of phoney loyalty through newspaper advertisments and so on. There is not even a pretence at asserting one's local standing. The familiar refrain is: "I am nobody. I am here at the leader's pleasure. If she does not want me to be the Chief Minister, she can ask me to step down." These words are uttered *ad naseum* by Gundu Rao, Antulay and Anjiah. Strictly speaking, such vulgar demonstration of subservience should disqualify them from heading states which are of the size of France, Germany and Italy. But in India, these utterances often ensure the continuance of leaders whose political survival depends on the patronage from above.

In one sense, no one can fault Mrs. Gandhi for doing what comes naturally to her: ruling the country in a style that remains her trade mark. How can a pen pusher like me point an accusing finger at her and say, "you are subverting democracy", when she continues to enjoy the support of the masses? I am beginning to think that it is pointless to blame Mrs. Gandhi for subverting the country's democratic institutions since she has a clear mandate to rule the country. Some kind of Peronism seems to be at work in India. A quaint and heady mixture of adulation and sycophancy is carrying her through. It would be foolhardy to question her right to rule the country when she enjoys such overwhelming support of the masses. At such moments in history, disbelief remains suspended as the cavalcade marches on.

Glass House Gossip

AFTER reading about the interception of the mail of selected opponents of the ruling party, I am overcome by a feeling, perhaps not wholly justified, that we may be living in a situation not far different from the one described by Orwell in his *1984*. And *1984* is not quite far off. I am almost tempted to say: beware, Big Brother is watching. In my home state, Karnataka, it was revealed last month that police officers are instructed to intercept letters and postal articles addressed to, or emanating from, certain individuals. The *Indian Express* did a public service by securing a copy of the secret directive issued by Mr. D.R. Karthikeyan, Deputy I.G. of Police, to post masters in the Shimoga Division asking them to permit the interception of the mail of some 35 selected individuals.

This is done under an antiquated enactment called the Indian Post Office Act, 1892. There is also another ancient act, called the Indian Telegraph Act under which the minions of law are empowered to intercept telegrams. Had the Karthikeyan directive not come to light, the "victims" of the order would never have realised that their letters are being intercepted. Three of the affected persons of Shimoga have filed a writ in the Karnataka High Court challenging the constitutionality of the century-old enactments to which I referred earlier. I wish some enterprising reporter will manage to get hold of similar lists from Bangalore and other centres in Karnataka.

Mail-interception seems to be more rigorous in Delhi where, I am told, the letters of some 264 persons are intercepted, scrutinised and re-posted. An abridged list of some 37 persons was recently published by a well known Delhi fortnightly. The list includes not only the names of Mrs. Gandhi's political opponents like Vajpayee, Advani, Rajmata Vijay Raje Scindia, Nanaji Deshmukh, Jyotirmoy Bosu and so on, but also those of well known journalists like Arun Shourie, Inderjit, Kuldip Nayar and Nihal Singh. The censoring of letters addressed to prison inmates is, as usual, more rigorous. That this is overdone is evident from the report of how they go about it in Tamil Nadu. Interception of a citizen's mail under certain exceptional circumstances may be justified on grounds of national security but, from what I have read in the newspapers, I get a feeling that mail-interception in India is done mainly to keep a tab on the opponents of the ruling party.

These abuses can be minimised —if not totally eliminated—by replacing the Post Office Act and Telegraph Act by new enactments which clearly spell out the circumstances under which an individual's mail can be intercepted. Considering that telephone tapping is more widespread than is known by the public, the amended laws should restrict the scope of telephone-tapping to individuals whose past record reveals their involvement in criminal or anti-national activity. Meanwhile, the opposition frontbenchers should boldly air their views on these issues in Parliament and elicit suitable assurances from the Government. What is at stake is the basic issue of individual liberty which is guaranteed under the Constitution. The individual should assert this right, if necessary, through the highest tribunal of the land.

□ □ □

MY belief in President Jayawardene's even-handedness remains shaken after the May-June incidents in the Tamil-dominated Jaffna, in Sri Lanka. And the orgy of violence which took place last month in several other parts of this emerald island confirmed my worst fears over the safety of the Tamil minority and the people of Indian origin there. Out of nearly 15 million people inhabiting the island, a little over 10 million are Sinhalese and the rest are Tamils of varying description. Not all Tamils can be called aliens since about 1.5 million of them are almost part of the island's flora and fauna. They are part of Sri Lanka's hoary history. As for the rest, a million can be taken as the descendents of indentured labour brought in by the British during the colonial rule for working on tea and rubber plantations. The future of the rest is governed by the Shastri-Sirimavo agreement of 1964 and a subsequent agreement which will expire next year. A good number of "stateless" persons may be still waiting either to be assimilated in the island or repatriated to India.

Sri Lanka is a multilingual—if not multiracial—society in which it is not always possible to keep linguistic antagonisms in check. It is well known that the Tamil minority led by the Tamil United Liberation Front is pursuing a separatist goal which, if conceded, will result in the carving out of a state for the Tamil-dominated province of Jaffna—the northern-most part of the island. The "eelam" cry, I think, is intended more to administer a shock therapy to the Sinhalese majority than to secede from the rest of the island.

It makes some sense however to suggest that the May-June violence that took place in parts of the

Jaffna province as well as the orgy of anti–Tamil riots that took place in other parts of Sri Lanka recently is intended to brow-beat the Tamil hotheads into submission but these ugly happenings do not reveal the Jayawardene Government in a favourable light. Concerning the violence that preceded the June 4 elections to the District Development Council in Jaffna, there is absolutely no evidence to suggest that TULF did anything to provoke the high-handed action of the police who went beserk in Jaffna on the night of May 31. In the words of Francis Wheen, correspondent of *New Statesman*, "a group of about 200 armed policemen went on the rampage in Jaffna, burning down 48 shops, a temple and several houses". In his report (July 17, *New Statesman*) Wheen continued: "In perhaps the single most horrific incident of the whole campaign, Jaffna's most magnificent public library was set ablaze and 95,000 books—almost its entire collection—were destroyed". The same night, the thugs also burned down the offices of a Tamil language newspaper. These intimidatory tactics did not have any effect on the outcome of the June 4 election in which the TULF candidates won all the ten seats in the Council.

The recrudescence of violence that took place in August, affecting not only the Jaffna Tamils but the Tamils of Indian origin scattered in other parts of the island is an indication that the Jayawardene Government was not too keen on bringing the situation under control and affording a modicum of security to the Tamil-speaking minority. I am prepared to concede that these incidents do not constitute any reflection on the Sri Lanka Government's attitude towards India but, whether one likes it or not, their impact is felt on India. Given an opportunity, the Tamils of Indian origin would like to take the earliest boat to India as they are feeling insecure in the island.

The slow pace at which refugees from Sri Lanka are being rehabilitated in India—mostly in Tamil Nadu—is an indication that a large influx from the island may put a serious strain on the rehabilitation organisation and its resources here. So far, New Delhi has shown commendable restraint in dealing with this issue but pressure is mounting on the Government to do something about it. Our sympathy for the victims of Sinhalese high-handedness notwithstanding, we should do nothing which trends to give the impression that India is encouraging the Tamil separatists on the island. On the other hand, New Delhi should try to bring about a reconciliation between TULF and UNP. Mrs. Gandhi should make the Jayawardene Government realise that it cannot wish away the existence of one-fifth of its population.

□ □ □

I always had a sneaking contempt for caricaturists who maliciously pictured President Reagan in Wild West attire, with guns slung to the belt and his hands ready to pull the trigger. Their purpose was to insinuate that former holywood stars cannot give up the habit of shooting from the hip. Now, after the Gulf of Sidra incident, I am beginning to think that the message of cartoonists is not all together pointless. I am referring to the shooting down of two Soviet-built SU-22s of the Libyan Air Force on August 19 on what Col. Gaddafi claims are Libya's territorial waters. The incident may have tempted the average Arab to wonder: What on earth were these Americans doing off the Gulf of Sidra in the Medittaranean? simple folk do not quite understand the manoevres of big powers who keep flexing their military muscles everywhere. It happened in the Medittaranean yesterday; it may happen in the Indian Ocean tomorrow. Diego Garcia is not too far away from the Indian coast. If President Reagan thinks that he should "teach a lesson" to the Indians, he may probably do to India what he did to Libya on August 19.

Not that I am any great admirer of Col. Gaddafi and his methods, but the Americans need not have got into a state of confrontation with this self-styled savior of the Arabs. He has been considered as a great de-stabilisers and his pro-Soviet stance has not quite endeared him to the oil-rich Arab nations. That Gaddafi is no great respector of international law is evident from many of his adventurist actions on the African continent and his covert support to terrorist activity elsewhere. But the average Arab cannot resist Gaddafi's ideological and religious appeal. By bringing down two Libyan war planes, the Americans have—at no extra cost to Gaddafi—elevated him to the status of a hero. Reaction from the Arab countries to the Gulf of Sidra incident has been uniformly one of anger over American action which is described, in some quarters, as an act of piracy.

Coming as it does in the wake of Israeli bombings of the Iraqi nuclear installation and of civilian targets in Lebanon, the punitive active by the Americans is sure to trigger an anti-American wave in the entire Middle East. Predictably, Gaddafi has used strong language to condemn U. S. action. He even hinted at the outbreak of the Third World War. Knowing as one does the sabre-rattling proclivities of the Libyan leader, one has to take these utterances with a pinch of salt. In any event, the people in the Medittaranean region need not lose their sleep over such a possibility.

— Plebeian

Prospects for the Developing World: Review of Recent Forecasts

By **Shahid Javed Burki** *

The picture emerging from forecasts for the developing countries in the 1980s is one of the advent of an age of global scarcity in a world of increasing populations. There are varying views on the degree of tension inherent in the situation, on the ways this tension is likely to manifest itself, and on how it can be alleviated. There is no disagreement on how somber the prospects are. Yet the developing countries have many choices to counter these prospects, if they choose to make them.

WHAT are the prospects for the developing countries in the 1980? Most recent assessments point to lower growth rates, greater numbers of poor, and scarcer and more expensive food and energy. Together with much higher populations, these make for a dismal outlook. The predictions depend of course on a number of differing assumptions about exactly how these key factors will take shape, and how they will affect the economies concerned. But there is a consensus that the boom days of the 1960s are over. And although the developing countries as a group responded well to the economic shocks of the early 1970s, they face a much more difficult situation in the 1980s.

What makes the situation particularly difficult for the developing countries is that they have had to respond to massive external shocks in a period of less than a decade. Although as a group these countries responded well to the difficult situation they faced in the early 1970s, they no longer have the economic resilience and the financial reserves to respond to the worsening conditions forecast for the next decade. They will need much greater help from outside: in the next few years, the very large demands for external capital of the poorest among them will have to be met on highly concessionary terms. Given the high interest rates likely to prevail in the international financial markets, the middle-income countries may also need some softening in terms of the capital they will need to borrow. In other words, the developing countries are reaching out for assistance at a time when the economic health of the industrial countries is not very sound either. To keep the global economy in good health during the 1980s, therefore, will need the efforts of developed and less developed countries working in harmony in support of policies which will foster world trade, investment, and aid.

This article draws upon a number of recent reports on the future of the world economy to form a composite picture of development prospects that shows a remarkable and pessimistic consensus. These reports include the World Bank's *World Development Reports*, which have used a global economic model to project economic changes in the Third World in the 1980s. The 1978 *Report* focused on the problem of rural poverty and agricultural backwardness in Asia and Africa; in 1979, the emphasis was on the prospects of rapidly urbanizing middle-income countries; in 1980, the role of human resource development in economic change received a great deal of attention. All the three *Reports* provide a rich statistical background on various aspects of the economies of the Third World.

The *Global 2000 Report* prepared by the United States Government at the request of the President used the results of global models for a number of individual sectors—food and agriculture, forests, water, energy, and so on. However, the links between these models are not sufficiently well developed to present the types of scenarios contained in the *World Development Reports. Interfutures*, a study of the world economy sponsored by the Organization for Economic Cooperation and Development (OECD), looks in great detail at "the future development of advanced industrial societies in harmony with that of developing countries." This concern with interdependence between developed and developing countries adds a useful dimension to the analysis of other reports. The Independent Commission on International Development Issues (Brandt Commission) Report, *North-South: A Programme for Survival* is essentially a synthesis of the results of these and other reports with emphasis on the policy initiatives that the world community can take to avert "economic, political and social disaster" in the remaining decades of this century. *Development Cooperation*, the annual reports issued by the Chairman of the Development Assistance Committee of the OECD; the *United States and World Development*, the annual reports of the Overseas Development Council; and the International Monetary Fund's *World Economic Outlook* provide useful insights into the short-term problems being faced by the various parts of the world economy.

---

* Shahid Javed Burki, a Pakistani, holds the position of Chief, Policy Planning Division in the World Bank. A graduate of Punjab University (Pakistan), Oxford University (U.K.), and Harvard University (U.S.A.), he joined the Bank as a Senior Economist in 1974. His publications include: A Study of Chinese Communes (Harvard University, 1970) and Pakistan Under Bhutto, 1971-77, (Macmillan, 1980).

The remarkable thing about these reports is the degree of concern and the consensus they show about the future of the developing countries. In reaching agreement, the institutions that have produced these reports have moved from the guarded optimism of the early 1970s to a grim pessimism for the early 1980s.

There were two shocks in the early 1970s to the Third World economies. First, wide-spread failure of harvests in a number of regions—China, the Sahel, South and Southeast Asia, and the Union of Soviet Socialist Republics—resulted in an unprecedented run on world grain supplies. As a result, the poor countries which had been meeting their food deficits from food aid now had to buy from the grain markets. Stocks were down and supplies were low. Within a few months in the winter of 1972-73, the price of wheat doubled and that of rice increased nearly two and a half times. This put a severe strain on the balance of payments situation of the developing countries. The low-income countries suffered very badly: their expenditure on food imports in 1973 was three and a half times as large in 1973 as in 1972 (see Table 1).

Second, the increase in the price of oil, announced by the Organization of Petroleum Exporting Countries (OPEC) in late 1973 added billions of dollars to the already large current account deficits of the developing countries. The price increased three times, with the result that in 1974 the developing countries paid $14 billion more for the import of nearly the same amount of oil as they had bought in 1973. Increases in the price of food and oil—two of the most essential needs of the developing countries—added $18 billion to their import bill. This represented a sizable resource transfer, equivalent to 55 per cent of the increase in the developing countries' combined output between 1972 and 1973. As the effects of these price increases began to work through the economies of the developing countries, their long run future looked less bright than their recent past.

TABLE 1

FOOD AND OIL IMPORTS OF THE OIL IMPORTING DEVELOPING COUNTRIES.

	1972	1973	1974	1975
Oil imports				
Volume	in millions of barrels a day			
Low-income countries	0.4	0.4	0.4	0.4
Middle-income countries	3.3	4.0	4.2	4.5
Total	3.7	4.4	4.6	4.9
	In U.S. dollars			
Price per barrel, c. i. f.	3.0	4.2	12.4	12.3
Cost of net imports	In billions of U.S. dollars			
Low-income countries	0.4	0.6	1.8	1.8
Middle-income countries	3.6	6.1	19.2	20.3
Total	4.0	6.7	21.0	22.1
Foodgrain imports[1]				
Volume	In millions of metric tons			
Low-income countries	6.5	11.4	11.7	14.8
Middle-income countries	19.8	21.2	26.0	23.3
Total	26.3	32.6	37.7	38.1
Price per ton	In U.S. dollars			
Wheat[2]	70	142	193	160
Rice	147	350	542	363
Cost of food imports	In billions of U.S. dollars			
Low-income countries	0.7	2.5	3.4	2.9
Middle-income countries	1.7	3.7	6.3	4.4
Total	2.4	6.2	9.7	7.3

Source : World Bank data. 1 Includes rice and wheat, 2 Average price of U. S. and Canadian wheat.

But, despite these adverse cirumstances, the developing countries managed to turn in a good performance. Between 1967 ann 1973, for example, the output of these countries as a group had increased at the average rate of 5.9 per cent per year; in 1973-78, it increased at a rate only slightly lower, at 5.4 per cent. This performance was the result of a number of wisely chosen "adjustment policies," including increased emphasis on exports, additional borrowings from the international financial markets to pay for the higher cost of imports, and a fairly significant reduction in the level of non-essential imports.

Different groups of oil importing countries chose different policies. The countries in Southeast Asia put additional efforts increasing their exports, the Latin American countries relied more on additional borrowings from commercial banks, and the poor countries in South Asia and sub-Saharan Africa attempted to eliminate some of the fat that existed in their imports. All three groups succeeded—albeit in varying degrees—in absorbing the twin shocks of food and oil price increase. The World Bank found this performance encouraging. It also drew comfort from the decline in the real price of oil between 1974 and 1978. According to its 1978 *Annual Report*, "economic growth in the developing countries has exceeded orginal expectations, and their economic, managerial, and physical capacity for further development has been greatly strengthened."

It was in this atmosphere of hope that the World Bank provided its first systematic set of projections for the performance of the developing countries in the 1980s. The *World Development Report*, 1 78 predicted that the combined gross domestic product (GDP) of the developing countries in the 1975-85 decade would increase at the rate of 5.7 per cent per annum. This was even better than the very impressive performance of the Third World during the third quarter of the present century: between 1950 and 1975, GDP in the developing countries had increased at the rate of 5.5 per cent per year. The developing world was expected to improve on its past performance, despite the fact that the industrial countries growth in output was expected to slow down somewhat—from about the 5 per cent average they maintained in the 1960s and early 1970s to about 4.2 per cent per annum between 1975 and 1985. Implicit in these growth forecasts for the developing and industrial worlds was the assumption that some slight "delinking" would occur between these two parts of the global economy, because of some strengthening of links among the countries of the Third World.

By far the most cheerful part of the picture painted at that time was the impact of Third World growth on the incidence of poverty. A substantial reduction in the level of poverty was predicted in the developing countries: the number of absolute poor was expected to decline from 770 million in 1975 to 600 million by the end of the century. At 600 million, the poor would represent only 17 per cent of the population of the developing countries, down from as much as 37 per cent in 1975. The Third World, in fact, could do even better than this if it pursued the right kind of policies. For instance, if the share of the poorest in incremental wealth could be increased to 45 per cent compared with 25 per cent—the historical norm—the developing countries could virtually eliminate the worst forms of poverty by the year 2000. Such a high level of income distribution was considered to be politically difficult but not altogether unrealistic.

By contrast, the World Bank's *World Development Report, 1980* sketches a relatively pessimistic picture for the developing countries in the 1980s. There are three reasons for this change in perception about the future of the Third World. First, it is now believed that the world economy is going through a significant and irreversible structural change. The most important aspect of this change is that the industrial economies are not likely—perhaps not ever likely—to return to the boom days of the quarter century following World War II. The changes in the patterns of demand and production in the developed countries, the declines in productivity growth, the limitation on the ability to cope with inflation, and the high cost of developing alternative sources of energy are thought to ensure lower rates of economic growth in their economies during the remaining two decades of the present century (see Table 2).

Second, the world is now perceived as becoming increasingly interdependent. There is no longer the expectation that buoyancy in the economies of some Third World countries would fully compensate for the economic sluggishness in the industrial countries. No matter how the world is divided, its various parts are thought to function as gears in a machine: if one gear slows down, others also slacken. An illustration of this "meshing" of the gears can be found in the case of trade. It was thought in 1980 that the expansion in world trade would occur at a rate significantly lower than the one estimated two years earlier. One consequence of this slowdown was the lower projection in the *1980 Report* for increases in developing countries' exports.

TABLE 2

CHANGING PERCEPTIONS OF THE THIRD WORLD ECONOMIC SITUATION, 1978-80

	World Development Report, 1978[1]	World Development Report, 1980[2]
	In per cent	per annum
Industrial countries' GDP	4.2	3.7
World trade		
Increase in world trade	6.4	5.5
Increase in developing countries	6.3	6.0
Net capital flows		
Commercial	4.8	
Concessionary	4.3	
Third World GDP		
Middle-income countries	5,9	5.5
Low-income countries	5.0	4.6
Projected 1990 GDP per capita[3]		
	in U.S.	dollars
Middle-income countries	1,740	1,620
Low-income countries	255	240

Source: *World Development Reports*, 1978, 1980.

1 Rates projected for 1975-85.

2 Arithmetical average of the rates for 1980-85 and 1985-90. The projections here are based on the 1980 Reports "high-case" scenario.

3 GDP per capita projections are in 1977 dollars.

Finally, the forecast is that the world is running out of resources. The period of abundance is over: mankind must now learn to do with less and less for more and more people. Fossil fuel is not the only vital resource destined for rapid exhaustion; questions have even been raised about the sufficiency of that seemingly inexhaustible resource: water. Therefore, the recent increas in the price of oil, persistent inflation, and recession are no longer viewed as events that temporarily interrupt progress. That was the perception in 1978. These developments are now seen as marking the beginning of a new age: the age of global scarcity. In this age the future of the developing world looks precarious.

The increase in the cost of obtaining essential imports will obviously affect development prospects. This is especially true for sub-Saharan Africa. For the countries in the region, the 1960s and, to some extent, the 1970s were periods of fairly steady performance. In 1960, average *per capita* income was $ 186. After increasing at the rate of 1.7 per cent per annum, it reached $ 239 in 1980. In the naxt ten years, however, averge incomes in sub-Saharn Africa may actually decline to $ 235 in 1990. The poor countries in South Asia will do only marginally better: between 1980 and 1990, they will be able to add only $29 to their average *per capita* incomes.

What would these growth rates mean for peoples' lives? The *World Development Report 1980* answers this question by estimating the changes in the number of people living in absolute poverty.

For 1980, the number of absolute poor is estimated at 780 million. If the rates of growth forecast actually materialize, this number may increase to 800 million. The slight reductions in the middle-income countries and in the poor countries of South Asia will be more than accounted for by the increase in poverty in Africa. Between 1980 and 1990, the number of people living in absolute poverty in sub-Saharan Africa may increase from 110 to 150 million. If this happens, in 1990 four out of every five sub-Saharan Africans will be living below the absolute poverty line.

TABLE-3

DEVELOPING COUNTRIES' INDICATORS OF ECONOMIC PERFORMANCE, 1960-90

	Low income		Middle income	Oil exporters	All developing countries	Developed countries
	Africa	Asia				
1. Population in millions (1980)	141	992	701	456	2,290	671
2. GNP per capita (1980 dollars)	239	212	1,638	968	791	9,684
3. Growth performance	*In per cent of GNP per annum*					
1960-70	4.4	4.0	6.0	5.7	5.6	4.6
1970-80	4.0	3.4	5.4	6.4	5.3	3.0
1980-85	2.7	3.3	4.2	5.8	4,3	3.0
1985-90	3.1	3.7	4.6	5.8	4.6	3.0
4. Growth performance	*In per cent of GNP per capita per annum*					
1960-70	1.6	1.6	3.6	2.8	3.1	3.9
1970-80	0.9	1.1	3.1	3.5	2.9	2.4
1980-85	-0.3	1.1	2.0	3.0	2.0	2.5
1985-90	0.1	1.5	2.4	3.0	2.3	2.5
5. Population growth	*In per cent per annum*					
1960-70	2.8	2.4	2.4	2.9	2.5	0·7
1970-80	3.1	2.3	2.3	2.9	2.4	0.6
1980-85	3.0	2.2	2.2	2.8	2.3	0.5
1985-90	3.0	2.2	2.2	2.8	2.3	0.5

Source : World Bank, based on statistical annexes to the World Development Reports.

The change in perception found in recent *World Development Report* is not unique to the World Bank. The same general conclusions are reached in a number of other studies. For instance, the *Global 2000 Report* submitted recently to the President of the United States has the following statement on the opening page: "For hundreds of millions of the desperately poor, the outlook for food and other necessities of life will be no better. For many it will be worse. Barring revolutionary advances in technology, life for most people on earth will be more precarious in 2000 than it is now—unless the nations of the world act decisevely to alter current trends."

Although the authors of *Interfutures*, a report on the future, commissioned by the OECD, are careful to point out that their forecasts should be interpreted with a great deal caution, their overall assessment is also clearly marked with considerable pessimism. They emphasize that future uncertainties could—in fact are likely to—lead to political rifts and many economic and social problems which could further exacerbate the uncertainty created by these likely political developments. An inflationary recession could be triggered by an energy shortage, industrial redeployment which, because of the transitional unemployment created, could encounter such resistance in some developed countries as to make protectionism develop cumulatively; and reordering of internal priorities within developed countries could generate serious tensions in their societies. These possible developments, according to the report,"....show that in the great transition now underway, the risk of a major crisis does not derive solely from the difficulties encountered in specific fields like population, energy, agriculture, and reallocation of industrial activities. It results first and foremost from a conjunction of the problems, which considerably increases the task of governments."

The report of the Brandt Commission, published in February 1980, also paints a somber picture for the world economy. "A number of poor countries are threatened with the irreversible destruction of their ecological systems; many more face growing food deficits and possibly mass starvation. In the international economy, there is the possibility of competitive trade restrictions or devaluations; a collapse of credit with defaults by major debtors, or bank failures; a deepening recession under possible energy shortages, or further failures of international cooperation; and an intensified struggle for sphere of interest and influence, or for control over resources, leading to military conflicts. The 1980s could witness even greater catastrophes than the 1930s."

But not all would suffer equally from the catastrophes of the 1980s. In the vivid language of a senior African official of the United Nations Economic Commission for Africa, "on the basis of all the economic projections we have seen so far, Africa in the year 2000 will not be in the ditch it is in now. It will be in the bottom of a deep black hole." And so on. There is a remarkable consensus among scholars, institutions, and aid-giving agencies about the future of the developing countries.

While there is a remarkable degree of consensus in a number of reports that have recently appeared on the future of the developing world, there are some differences in their jndgments about the *ability* of these countries to adjust to the difficult circumstances of the 1980s. According to the Chairman of DAC "If we aviod excessive hand wringing and get on with what is doable, there is no reason to extrapolate the collective adversities of 1980 to the whole of the decade, let alone beyond."

The World Bank in its *World Development Report, 1980* provides a list of "doables." There are actions that need to be taken immediately: larger flows of concessional assistance to the poor nations and larger availability of commercial capital to the middle-income countries to help the two groups finance their deficits without hurting much their development efforts; structural adjustment within developing countries to save on the need to import large amounts of oil and food; and greater efforts within the developing world to generate additional resources for development. Over the long term the developing countries will need to improve their administration, raise agricultural productivity, and to make better use of their resources, laying greater emphasis on investments in human resources and in reducing the growth of their populations. Other necessary actions include the promotion of exports by the developing countries and a check on protectionism by the developed nations to help increase world trade and thus provide some additional resources to the Third World.

If policies such as these were adopted and successfully implemented, the developing countries might grow a shade faster. Instead of a 2.2 per cent per annum increase in their *per capita* incomes, they might manage a rate of 3 per cent. The higher rate would mean an addition of $80 to the average income of the citizens of the developing conntries by 1990. It would also mean reducing rather than increasing the number of absolute poor. But "economic growth alone would not reduce absolute poverty at an acceptable speed." Accordingly, the World Bank Report integrates concern with growth with the development of human resources. The case for human development—which encompasses education and training, better health and nutrition, and fertility reduction — is made not only on moral but also on economic grounds.

The Brandt Commission, in its *North-South : A Programme for Survival*, is a bit more pessimistic about the world's ability to help the poor out of their present difficulties. The Commission urges immediate action in at least three areas: poverty, hunger, and rapid population growth. This would need a collaborative effort between the North and the South. While the countries of the South "call for social justice internationally, they must not neglect such values at home," and the North "for its part must not pursue selfish policies, depleting the world of precious resources; it, too, must find new patterns of growth, more sensitive to the world's needs."

The OECD, in its 1980 report, also underscores the problems of one geographic area and identifies it as the target for immediate world attention — sub-Saharan Africa. A big push aimed at improving physical infrastructure and increasing agricultural output is recommended with the initiative coming preferably from Pan-African regional multilateral organizations.

The *Global 2000 Report* is by far the most pessimistic of these documents. It finds that the time for action is running out. "Unless nations collectively and individually take bold and imaginative steps toward improved social and economic conditions, reduced fertility, better management of resources, and protection of the environment, the world must expect a troubled entry into the twenty-first century." The bold and imaginative steps that these reports call for would result in some fairly significant structural changes in the economies of the developed and developing countries. The industrial nations are being asked to conserve energy and other non-renewable resources. The rate of growth in the consumption of these vital resources should be much less than the future rate of growth of the output of their economies.

These countries must also concentrate future investments in the industries in which they have comparative advantage, leaving their demand for the products of some of the traditional industries to be met by exports from developing countries. The developing countries must also undertake structural adjustments. For most of them, dynamism for future growth will have to come from their large agricultural sectors and from greater investments in their human resources. For many of them, a large part of the demand for energy will have to be met from sources other than hydrocarbons. In sum, the developing nations will not be able to rely on industrialization and cheap energy for their growth. They will not, therefore, pass through the same stages of growth as did the industrial countries before them. — *Finance and Development March 1981.*

SBI HELPS BACKWARD AREAS IN BIG WAY

At the end of 1980, backward districts accounted for nearly half of the direct agricultural advances made by the State Bank of India and 235 or 62 per cent of the 379 agricultural development projects were located in these districts. Out of the 2,502 area development schemes with a total outlay of Rs. 683 crores submitted by the Bank to the Agricultural Refinance and Development Corporation, 1,125 schemes with an outlay of Rs. 300 crores pertained to backward districts.

Seventy-seven lead districts were allotted to the Bank, out of which 71 are industrially backward, mostly situated in hilly and tribal regions. The second-round credit plans for these 71 districts envisage a total outlay of Rs. 562 crores during 1980-82. The Bank's total advances under the differential interest rates scheme increased in 1980 by Rs. 15.4 crores to Rs. 68.4 crores and the number of accounts by 1.3 lakh to 9.7 lakh.

During the year (1980), the Bank sponsored four new regional rural banks, two in Bihar and one each in Orissa and Uttar Pradesh. At the end of the year, the Bank had sponsored a total of 15 regional rural banks covering 25 backward and underbanked districts. These banks, during the year, opened 138 branches, taking the total number of their branches to 668 and their deposits to Rs. 52.8 crores (an increase of Rs. 20.4 crores). The loans disbursed by these banks to small and marginal farmers and other economically weaker sections of the rural community amounted to Rs. 51.7 crores.

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

— *Circulation Manager*

Big Achievements in Power Sector

AS a result of various measures initiated by the Ministry of Energy, the power sector has achieved a high rate of growth in terms of power generation and capacity addition. The rate of capacity utilisation in thermal power plants has also gone up. The power generation during the six months, October, 1980 to March, 1981 recorded an increase of nearly 13 per cent over the corresponding months of the previous year. During this period, nearly 59,000 million units were generated as against 52,000 million units produced during the corresponding period of the previous year marking an increase of nearly 7,000 million units.

For the period April-July 1981, the overall power generation went up still higher. It recorded an increase of 17 per cent over the generation in the corresponding period last year.During this period 39,951 million units were produced as against 34,179 million units produced, during the same period last year. The generation target fixed for these four months at 39,463 million units was exceeded by nearly 500 million units.

The increase in thermal generation which requires special efforts, has been particularly significant over the past one year. Whereas the thermal output during October 1980 to March 1981 recorded an increase of 15.4 per cent over the corresponding period of the previous year, the increase in thermal output during the four months period, April-July 1981 has shown a growth of 20.4 per cent over the same period last year. The thermal generation had started showing significant improvement from October 1980 onwards after the thermal sets which had been taken out during the monsoon for repairs and renovation were brought back.

The strategy evolved by the Ministry of Energy for improved capacity utilisation also paid big dividends. The Ministry initiated a number of msasures to improve capacity utilisation. These included: plant betterment programmes in a time bound schedule, monitoring by experts team to improve the operation and performance levels of power stations, timely availability of spares and the requisite quality and quantity of coal to the thermal power stations. As a result of these measures, the capacity utilisation of thermal plants increased from a level of 45 per cent in 1979-80 to 52 per cent in March 1981.

The progress in the implementation of power projects is constantly reviewed through periodical discussions with the State Governments/State Electricity Boards. Discussions are also held with the concerned departments for the timely availability of all inputs for the commissioning and operation of power projects.

The Government has accorded the highest priority to power generation schemes in the Sixth Plan. An outlay of Rs. 19,265 crores has been made for the power sector during the Sixth Plan and an addition of nearly 20,000 mW of generating capacity is expected to be added during the Plan period. Thus, investment on power which was only Rs. 260 crores in the First Plan has increased considerably over the successive Plans and now accounts for as much as 26 per cent of the total Plan outlay. During 1980-81, the generating capacity went up by 1,823 mW against 1,799 mW in 1979-80.

In the context of depleting fossil fuel resources and distinct advantages of hydro power, the development of hydro electric potential in the country has been given priority. 19 hydro electric schemes with a total intalled capacity of 2,649 MW have been cleared during the past one year. Three hydro electric projects in Himachal Pradesh and four in Uttar Pradesh have already been identified for investigation and execution in the central sector. All-out efforts are continued to accelerate the pace of development in the field of electrification of new villages and energisation of agricultural pumpsets.During 1980-81, 21,509 villages were electrified as against the previous year's achievement of 17,029. In 1980-81, 3.60 lakh agricultural pumpsets were also energised. Special provision for electrification of harijan bastis and tribal areas was made. The Planning Commission has provided a sum of Rs. 33 crores for electrification of left out harijan bastis during the Sixth Plan.During 1980-81 the Rural Electrification Corporation sanctioned 103 schemes to electrify 7,094 harijan bastis at a cost of Rs. 6.80 crores.

There has been considerable increase in the generation and plant load capacity of the Damodar Valley Corporation which mainly caters to the power needs of important consumers like Railways, coal mines steel plants and other allied industries in the Eastern region. The DVC generation during the first seven months of 1981 was 3246 MKWH as compared to 2460 MKWH during the corresponding period in 1980. The plant load factor during this period also went up from 40 per cent in 1980 to 48.6 per cent in 1981.

The Bhakra Beas Management Board has undertaken a programme of revamping of the machines installed in the Bhakra Left Bank Power House by replacement of the windings by which the rated capacity of the machines is expected to go up from 90 mW to 108 mW. While work on one unit has already been completed, the second unit will be taken up shortly. All the five units of the Bhakra Right Bank Power House have also been upgraded during the last one year from 120 mW to 130 mW.

Subscribe to :

SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign:* 15 Dollars)
surface mail

Third World's Crisis and the Relevance of Do-It-Yourself Philosophy

By **Andre van Dam**[*]

Development programmes based on economic theories unrelated to the real problems of the people in the developing countries have not helped in solving their problems. A new look at the problem of economic development has therefore become imperative. In this article, Mr. Van Dam, noted economist involved in Latin American development examines this issue and suggests that a do-it-yourself approach which takes into account the problems and resource-endowment of a region is more productive of results than an omnibus approach.

WHEN asked how his country was doing, Brazil's then president used to remark; "Brazil is doing quite well, thank you — but not so the Brazilian people". The schism between the rapidly increasing output of Third World countries and the misery of its poorest citizens numbering a billion is indeed the greatest challenge to experts in development. In simple terms: *economic growth does not necessarily trickle down to those who need it most, when they need it most.*

It comes therefore as no surprise that with every year that passes, the international community becomes more concerned with meeting the most basic of all human needs than with the mere expansion of economic output. It suddenly dawns upon many policy-makers and their advisers (and critics) that they had risked losing sight of the ultimate goal of development — which was so admirably summed up in the Cocoyoc declaration:

> Our first conern should be not to develop things but to develop man. Human beings have basic human needs: food, shelter clothing, health, education. Any process of growth that does not lead to that fulfillment is a travesty of the idea of development.

Scanning the world literature on development and traveling through the different parts of the world, the observer is mindful of China's dictum: "great disorder under heaven" — which seems dramatically applicable to the state of the art of development in many parts of the world. Harlan Cleveland[1] aptly explains the disorder. Most development plans fail to take into account the complex interlinkages between diverse development factors such as: population growth and distribution; climatic changes; the price of petroleum and other soureces of energy; the availability of water and marine resources; production and distribution of foodstuffs; substitution of raw materials; trade and investment flows, and restrictions; monetary policies; shifting fashions of economic thinking; mutations in technology; and, last but not least, the fact that each year scores of nations change their political leadership. (To this I might add; man's genuine aspirations and society's potential to satisfy these in some fair sequence of priorities).

The discussions around a " new international economic order" are overwhelmingly steeped in macro-economic considerations. Some participants stress the extreme reliance of Bangladesh on jute or that of Zaire upon copper. Others engage in the mathematics of the transfer of resources from north to south. Others again focus on trade and investments, buffer stocks and common funds. But what about the landless peasant and the urban squatter. How do they fit into macro-economic decisions? The plain fact is; they do not.

It is thererore refreshing to the observer and, more importantly, encouraging to the landless peasant and the urban squatter, that more and more messages run like this: *the key to meeting basic human needs is the wholehearted participation of individuals and communities in local problem-solving — with appropriate financial assistance and technical help provided by the public sectors at home and abroad.* The crux of the matter is to blend this "grassroots" approach with international development assistance, *vice versa.* Will the idea strike a responsive chord with those who have the power of suasion and action? Dr. Bruce Stokes of the Worldwatch Institute provides us with some challenging answers (some of which are woven into this article) as to how a "do-it-yourself" approach may contribute to meeting basic human needs — in food, shelter, energy. health and other areas.

Throughout the ages, the struggle to obtain enough food has absorbed the daily energies of people. But how much is enough? The Food and Agricululture Organization and the World Health Organization compute the average need of a Third World adult as close to 3,000 calories per day. Yet, the inhabitants of Vilcabamba (Ecuador) hold the world's record of longevity on an average diet of merely 1,700 calories.

Neither Brazil nor any other developing country can blindly copy successful recipes, but the latter might certainly inspire them to home-made solutions of meeting basic needs. For example, they should know about Jamaica's "Grow our own food" campaign— which doubled the proporation of home-grown foods in many rural areas in just a decade. In so doing, rural Jamaicans spend proportionately less income on food and in the process reduce the incidence of child malnutrition.

---

[*] Mr. Andre van Dam is Director of Planning in Latin America for CPC International. The Dutch Economist lives in Buenos Aires, Argentina.

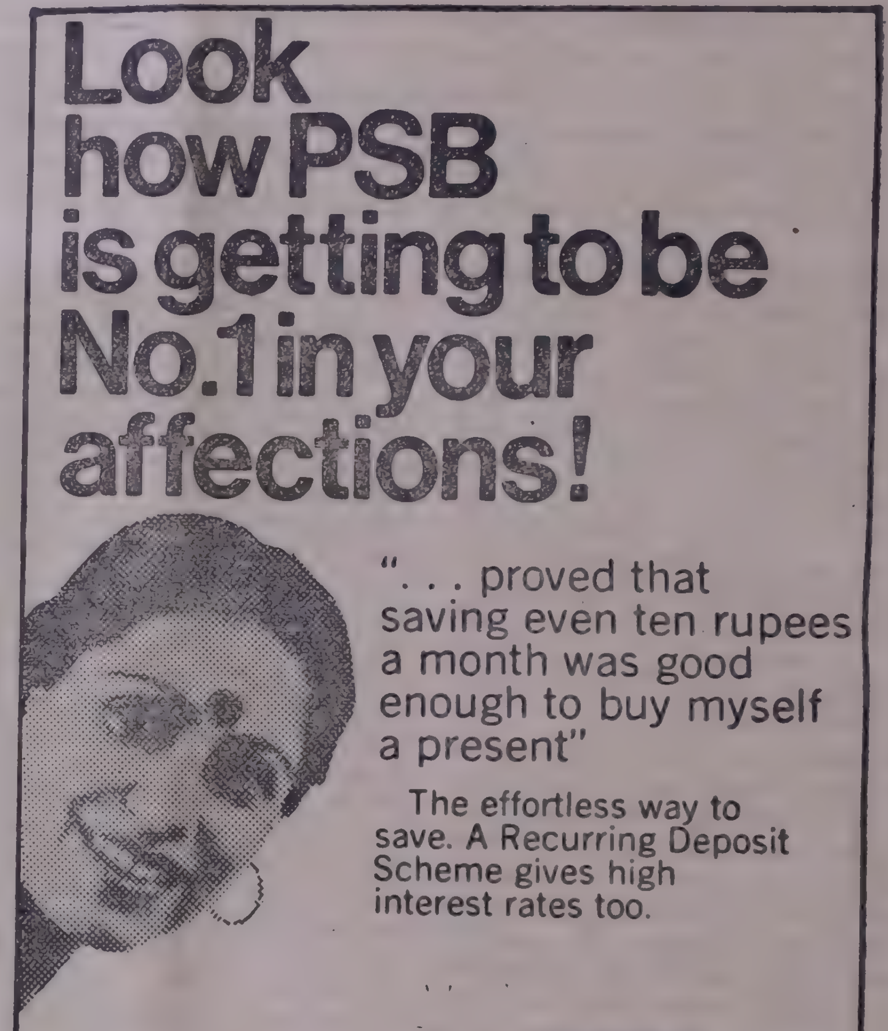
[1] Introduction to "Basic Human Ndeds: a framework of action", John and Magda McHale, a report to the United Nations Environment Programme, April 1977.

Likewise, Third World nations may learn a lesson from Taiwan's successful "land-to-the-tiller" programme which in one generation doubled the proportion of farm families. Surveys undertaken by the U.S. Agency for International Development in Brazil, Colombia, Guatemala, India, Mexico, Philippines and South Korea indicate that small, owner-operated farms enjoy a higher rate of productivity per acre than large farms. Under certain circumstances, small-scale owner-operated farms may be induced to form cooperatives, although China's experience in farm collectivization is not encouraging.

After food, shelter is the most basic human need, because other needs have to be satisfied in relation to the home: food preparation and storage, child care and education, health maintenance, and social life. In fact, a number of urban squatters are tradesman using the home as a place of business, e.g. carpenters and tailors. Shelter lends itself eminently to "do-it-yourself". Chile's "Hogar de Cristo" built 3,00,000 houses from prefabricated wooden parts which squatters put together, in replacement of their cardboard-and-sheetmetal shelters. Iran's Lorestan community built the usual mud-and-brick dwellings, connecting these for amenity and hygiene with collective latrines detached from the living quarters. Using mud and brick too, an Egyptian architect added, for instance, bitumen, paraffin emulsions and asphalt to stop moisture from seeping up from the ground. His community buildings are being erected in the same fashion.

Regardless of the degree of community effort and self-help, the poor cannot do it alone. They require technical and, above all, financial assistance which can be recycled through community cooperatives. Squatters in Mexico City jointly erect their homes, improve their plots, build some infrastructure with the use of credit unions they form themselves thanks to financial atsistance of local banks. The latter recycle loans received from the World Bank and other foreign sources. In the process, this way of meeting basic human needs strengthens the community fabric itself.

Tanzania's government provides the Ujamaa communal villages with dispensaries staffed by medical helpers and supported by fellow villagers. They treat minor ailments and provide first-aid care for serious illness. Since healthcare depends on meeting other basic needs (hygiene, safe water, food diet), Kenya, for instance



Look how PSB is getting to be No.1 in your affections!

". . . proved that saving even ten rupees a month was good enough to buy myself a present"

The effortless way to save. A Recurring Deposit Scheme gives high interest rates too.

". . . came home to teach children the first lesson in savings"

The Chhoti Bachat Scheme. Re. 1 a day becomes Rs. 1826 plus interest in 5 years—without your having to step outdoors.

ASP/PSB/202-81A

PSB—The name of total banking service

PUNJAB & SIND BANK

(A Government of India Undertaking)

uses its radio chain to urge people to bath, wash vegetables, and fight insects and rodents.

Healthcare lends itself eminently to cooperation at all geographic levels. The technology may be costly in itself, yet cheap when spread over huge regions. For example, complex remote telemetry and automatic diagnostic procedures can be deployed over the entire Amazone region. Medical "aerospace" communications can become as inexpensive as barefoot doctors and nurses. China's rural barefoot doctors and urban worker doctors provide basic healthcare, both preventive and curative. They diagnose and treat common diseases, run village health centres, disseminate birth control data without assistance. They use indigenous herbal medicines as well as modern techniques.

Such cooperation is specifically important between neighbouring countries. Sicknesses are carried by migrant labour between Ghana and Upper Volta. The same applies to regions within countries, such as the spreading of the sleeping sickness along new roadworks in Nigeria or that of schistosomiasis around irrigation schemes in Sudan.

Joint ventures require new relationships between communities and their health service as well as between national (and international) health facilities and the individual communities. For each physician, as many non-professionals and paramedics should be utilized as proves feasible. Women, presently barred from rendering health services by either taboos or prejudices, should eventually have a modicum of medical training to assist in spreading notions of hygiene and balanced diets, and provide first aid. It is essential to blend modern medical knowledge with those traditional cures which have storng social qualities.

Education, especially literacy, is closely related to meeting othe-basic needs. For instance, self-help in shelter is reduced by the inability to read instructions whereas information on health is hampered where literacy does not exist. Improvements in nutrition are difficult to disseminate when educational levels are too low. Small wonder then that squatters in Lusaka's poor slums built primary schools with the assistance of credit unions which they formed themselves. Construction took place using technology appropriate to the building materials locally available, and the skills of squatters themselves.

Appropriate technology—of the type advocated so brilliantly by the late Dr. E. F. Schumacher—lends itself eminently to self-reliant community efforts. In fact, such efforts have brought about basic cement factories in Tanzania and China, mini-sugar-plants in India, soap factories in Ghana. Villages in Pakistan's Swat District have established mini-hydro-projects that power even neighbouring hamlets. Unicef runs a "Village Technology Unit" in Nairobi (Kenya) which concentrates on self-help in housing, sanitation, water supplies and food production and processing.

Indeed, water is one of the less frequently stated basic needs. For instance, land-locked Botswana is short of water: its territory is mostly made up of the Kalahari desert. Both the national currency and the customary greeting are called "pula" which means rain—no wonder in a country with an average annual rainfall of 120 mm. Botswana''s recent discovery of a huge diamond mine which is likely to catapult the nation into a more modern age, is insufficient to defray the cost of pumping the clear water of Okavango across the Kalahari desert, to where most of Botswana's inhabitants live.

Dignity is a deeply ingrained human need. Dignity demands that the human being be integrated in the social structure of the community—meaningfully employed, and earning sufficient income to meet basic material needs. To be unemployed is to be outside society, deprived of income, dignity, hope. To be underemployed is to fritter away precarious time and talents most of the year, month or day. The "do-it-yourself" approach to meeting human needs in food raising and processing; education; healthcare; clothing; energy; water — and so forth, is inevitably labour-intensive. The community spirit which it brings about will lessen hardships and improve access to loans, technology and expert management.

Employment is to be provided where the people make their home —mostly on the land, if only to aviod major migration to urban slums. According to the International Labour office, by 1980, close to 30 per cent of the Third World's labour force will have been either unemployed or underemployed. Community-led self-reliance, encouraged by external technical assistance (appropriate technology), financial help (loans recycled through community credit unions) and management (from barefoot doctors to modern management), will go a long way to create meaningful employment where it is most desperately needed. However, such efforts can only blossom out if socio-economic and political structures foment decentralized community decision-making and problem-solving that the ''do-it-yourself'' approach of meeting basic needs demands.

The multiplier effect of financial assistance in the community efforts is enormous. For example, in ten years the Inter-American Foundation in Washington D.C. has disbursed 100 million to directly fund citizens' endeavors in Latin America—in agricultural projects, housing schemes, education development. These loans are well recycled, matching material benefits with generous deployment of new skills and experiences. They stimulate the cooperative movement far beyond the projects which they finance.

Neither the massive mobilization of local resources nor the attainment of a real net transfer of resources from North to South, to the tune of 1 per cent of the national product, will suffice to meet all the basic human needs of the Third World between now and the year 2000. It is for governments to share responsibility for meeting the most pressing needs with those who are affected: the landless peasants, the urban squatters and others in disprivileged communities. This participatory process must now permeate the international development community, the policy-makers South and North, and those who can provide the financial, technical, natural, other resources—in the public and private sectors.

Break-Through in Coal Production

As a result of concerted efforts made by the Government, the coal industry has continued to maintain a high rate of growth. After exceeding the production target for 1980-81, the coal sector has crossed the planned target rate during the first four months of 1981-82 also.

The coal production in the country had remained virtually stagnant between 1975-76 when it was 99.5 million tonnes and 1979-80 in which year it was nearly 104 million tonnes. Recognising that coal had to play an increasingly important role in meeting the energy needs of the country, particularly in the context of the global shortage of fuel oil, the present Government, after coming into power in Jaunary last year, formulated an ambitious programme for production of 113.50 million tonnes in 1980-81. Simultaneously, the bottlenecks which had come in the way of stepping up coal production in the preceding years were identified and concerted efforts were made to overcome these problems.

As a result of these efforts the coal industry achieved a dramatic breakthrough in production in 1980-81 when the coal output touched an all time high of 114 million tonnes, thus, exceeding the target by half a million tonnes. The growth last year had been 9.6 per cent. The performance of Coal India Limited a major public undertaking in the field of nationalised coal industry, had been even more remarkable in as much as the coal companies under the CIL exceeded the actual target by nearly two million tonnes and achieved a growth rate of 10.4 per cent over the previous year.

The coal producing industry, during April-July 1981 has substantially exceeded the planned target rate of 5.2 per cent for the entire year. During these four months, 36.73 million tonnes of coal was produced as against 34.12 million tonnes produced during the corresponding period last year marking an increase of 7.6 per cent. Thus, during these four months 2.61 million tonnes of additional coal was produced over the corresponding period last year. With the increased trend of coal output, the coal industry is confident of achieving its target of 121 million tonnes for 1981-82 as a whole. Efforts are being made to exceed the target.

The Coal Department has made assessment of the necessary inputs required for the coal industry during the year and steps have been taken to provide these. The important inputs include equipment and machinery for the coal mining projects, steel and cement required for the construction work at these projects and assured availability of power for the mines. Arrangements have been tied up for assured supply of these inputs for 1981-82.

It is proposed to invest nearly Rs. 3,000 crores in the mining industry during the Sixth Plan period to attain the projected level of production which is targetted to reach 165 million tonnes in the terminal year of the Plan. The benefits of increased coal output have been passed on to the consuming sectors with consequential impact in terms of improved performance of these sectors. For instance, the level of thermal generation has gone up; the improved production of coking coal has been a major contributory factor in the improved performance of the steel industry.

There has been a significant increase in the supply of coking coal to the steel plants. In April-July 1981, the supply of coking coal to the steel plants is estimated at 3.65 million tonnes as against 3 38 million tonnes in the same period last year recording a growth rate of 7 per cent. The washeries of CIL have also been functioning at a higher level of efficiency and as a result the washed coal production in April-July 1981 has been about 14 per cent higher than the correspvnding period of the previous year.

As a result of the efforts put in by the Energy Ministry, there has been a substantial improvement in the supply of coal to the various consuming sectors in April-July 1981 period. CIL supplied about 11 per cent more coal to its consumers as compared to the last year. This increase was reflected in despatches to all the major consuming sectors. The power stations received 19 per cent more coal during the period April-July 1981 over the corresponding period last year. Similarly, the supply of coal to the cement plants from CIL increased by about 51 per cent and to the fertiliser plants by about 150 per cent.

The steel plants have received about 7 per cent more coal and as a result, have been able to build up stocks at the steel plants to a level of about 5 lakh tonnes at the end of July 1981. It is proposed to build up stocks further to a level of 7.5 lakh tonnes in the next couple of months.

The coal companies are also making determined efforts to reclaim coal from the stocks to improve the despatches. As a result the companies have been able to liquidate nearly 1.8 million tonnes of coal stocks in April-July 1981. The present stocks of coal at the pitheads are estimated at about 16 million tonnes. The coal companies are taking further steps to reclaim coal from the pitheads and transport to the sidings for loading into the wagons for despatch to the various consumers.

LIC BANGALORE DIVISION TOPS IN NEW BUSINESS

For the first time, Bangalore Division of the Life Insurance Corporation of India has crossed 100 crores by registering a New Business of Rs. 107.32 crores during the financial year ended March 31, 1981 as against the previous year's performance of Rs. 98.38 crores. The City branch and Malleswaram branch of Bangalore Division have secured the First and the Second places in the whole of the South Zone of the Corporation. Career Agent's branch of the L.I.C. at Bangalore has retained the premier position in the Corporation among the 54 Career Agents' branches in the country.

Global Energy Situation: Prospects for 1985-2000

By **A. R. Prasad** *

As the century is passing through its last decades, the world is becoming dimly aware of the energy crisis that is looming on the horizon. The depletion of fossil fuels at a fast rate and the growing energy needs of the world are expected to create an energy gap at the turn of the century. The author takes a close look at this problem, and explores various possibilities which can be taken into consideration while formulating an energy strategy for the coming decades and beyond.

THERE has been a rapid post-War growth in global energy consumption—a growth pattern which looks likely to be maintained for the indefinite future. In 1950, world energy demand amounted to 2,600 million metric tonnes of coal equivalent (mtce) comprised of 1600 million tonnes of coal, 700 million mtce of oil, 260 million mtce of natural gas and 40 million mtce of hydropower. In 1972, total world energy consumption had soared to 7,600 million mtce, of which nearly half, i.e., 3,350 million mtce was accounted for by oil. It is expected that world energy consumption would reach around 16,000 million mtce by 1985 at the most conservative estimate. A study by a team of experts from Cavendish Laboratory, University of Cambridge, UK, was considered at the World Energy Conference at Istambul in 1977, where it was shown that total primary energy consumption in the world is likely to grow from the 1972 level of 268 ExaJoules (10^{18}J) to a level of 584 ExaJoules in 2000 A.D. and 1005 ExaJoules on high economic growth by 2020 A.D. Even based on low economic growth, the demand for energy will become three times as compared to the present consumption. There are, however, a few variable items like price response, oil constraint, energy constraint, economic growth etc. that would come into play in arriving at a likely energy demand growth over this period.

It is, therefore, apparent that the extent of this vast international energy consumption is a vital aspect of post-War industrialisation. The dramatic increase in world energy consumption may also be due to increased rate of *per capita* consumption as part of the growth of a technologically sophisticated form of industrialisation. In addition, although there has been a manifest growth in total world population, its contribution to increased world energy consumption should not be overestimated as this has been largely in low energy consumption areas.

II

By 1970, the industrialized world obtained 94 per cent of its total energy requirements from fossil fuels. This pattern was in stark contrast to the non-industrialized countries, representing 70 per cent of the world population, who remained heavily reliant on traditional sources of energy such as firewood, cow dung, and vegetable wastes, etc. The Ninth World Energy Conference, held in Detroit in 1974, revealed a remarkable feature regarding the recoverable reserves as between solid fuels and other sources of energy.

The results state that around half of world recoverable reserves are in the form of solid fuel. This only underlines the fact that coal represents by far the largest share of fossil energy in the world. The Conference also threw interesting light on the precise breakdown of the world's estimated recoverable energy reserves. It estimated that the total resources of solid fuels was 11 million million tonnes giving a resource to demand ratio, i.e., a life expectancy, for solid fuels of 3760 years. World Geological coal reserves are currently estimated at 10,781,832 million tonnes of which the hard coal reserves is estimated at 7.7X10^{12} and brown coal at 2.4X 10^{12} million tonnes. This equals a reserve to demand ratio or life expectancy of 500 years.

India's coal and lignite resources are estimated at only 83,052 million tonnes. This means that the coal and lignite resources in India are less than one per cent of the world's resources. India, thus stands 8th in the matter of coal reserves and this is adequate for meeting our requirements till beyond 21st century. Seventy one per cent of the world coal resources are located in the continent of Asia, mainly in USSR, China and India. The level of coal production in relation to the total resources is so law at present that a very large number of countries in the world are in a position to produce coal for a long time to come. It is generally felt amongst the world experts on coal production that the production of coal may grow three times (say 8,700 million tonnes) by 2020 A D. Demand could grow by 5 or 6 times the present level, but coal production in the world may not grow that fast. In India, it is expected that coal production may be 5 or 6 times the current level of 101 million tonnes and lignite four times the present level. Most countries are planning coal production for their own consumption and only a few contries are planning for extensive export. Hardly 7 per cent of production is meant for international export. This is an interesting point for comparison with the world situation of crude oil.

With a view to realise the above production levels, various constraints will have to be overcome. In all major coal producing coun-

---

* Mr. A. R. Prasad is Lecturer, Department of Economics, Banaras Hindu University, VARANASI-221005

tries, shift in production centres are seen. The locations of mining centres for exploitation of the reserves in USA are steadily shifting from the eastern part of the Mid-West. In USSR, the mining centres are moving from west to east. In China, it is steadily moving from north to south. In India, mining centres are moving towards west from the traditional eastern regions in the middle of the country. Thus, shift in production centres would call for extensive infrastructure developments, which are costlier than capital required for production of coal. For example, coal at $ 9 at pithead becomes $ 15 when loaded into ships and $ 30 when it reaches Europe by medium size vessels. On the other hand, petroleum at $ 13 a barrel in Middle East, requires $ 1 to reach Indian ports and another $ 1 for reaching the oil refinery. The future of coal therefore, depends upon economies that can be made in coal transportation so that the landed price of coal can be contained after taking larger share of coal itself.

IV

The remarkable feature of the twentieth century growth of industrialisation is that it has been sustained substantially on fossil fuels among which oil has provided the greatest share of the sharply increased overall consumption. While the 1950s and 1960s are traditionally regarded as the high tide of the oil era in terms of its competitive supremacy over other fuels, the likelihood is that oil production will show a striking growth from around 45 million barrels a day in 1973 to somewhere of the order of 70 million barrels a day by the late 1980s.

The value of petroleum and the high rate of consumption in relation to the rate of discovery of new deposits were first realised all over the world when a four-fold hike in price was given effect to by the OPEC countries in 1973. The World Energy Conference in 1977 assessed that the rate of growth of demand of petroleum will outstrip the rate of growth of production some time in 1985. In the meantime, the advent of oil from the North Sea and Alaska will have the effect of stabilising OPEC prices probably right up to 1980, but these also likely to be costly. Thus, whatever may be the exact date of the likely exhaustion of petroleum reserves, there is bound to be a major shift in the energy consumption pattern in the world and by the turn of the century, new energy forms are likely to come in the picture for substituting petroleum energy.

In comparison with coal, proved reserves of oil in India are at present exceedingly small. However, a great deal of survey and explo-

TAX PAYERS !

SECURE PROMPT CREDIT FOR YOUR INCOME TAX PAYMENTS

The Income-tax Officer gives you credit for your tax payment on the basis of the counter-foil of the challan received from the authorised bank where you make the payment

Surely, you would like your tax payments to be credited to your account in the records of the I.T.O. promptly and fully

THEN CHOOSE THE APPROPRIATE CHALLAN FORM FOR EACH PAYMENT

There are separate challan forms for the various types of income-tax payments. These are :

For payment of	*No. of challan*	*Colour of the band in challan form*
Advance Tax		
By companies	1 (ITNS 35A)	Red
By others	7 (ITNS 35)	Blue
Self-Assessment Tax		
By companies	3 (ITNS 166)	Red
By others	11 (ITNS 166A)	Blue
Tax Deducted at source		
From salaries	9 (ITNS 191)	Blue
From other payments		
Made to companies	2 (ITNS 39A)	Red
Made to others	8 (ITNS 39)	Blue

THE NUMBER OF CHALLAN IS INDICATED ON THE TOP LEFT HAND CORNER.

For payment of tax due on regular assessment, the appropriate challan will be supplied to you by the income-tax Officer.

Use of a wrong challan may result in misclassification and consquent difficulty in giving prompt credit for the tax payment.

FILL THE CHALLAN FORM COMPLETELY AND CORRECTLY

And make sure you write legibly on all foils of the challan :

- Your name and address
- I.T.O.'s Wards or Circle where you are assessed or assessable. In case you are a new assessee, mention "NEW CASE" also on the top of each foil of the challan.
- The amount of income-tax and surcharge separately.
- Your Permanent Account Number/GIR Number.
- Assessment Year.

A mistake or omission may result in undue delay in giving credit to you for your tax payment.

Correct entries in the Department's Books are as important as prompt payment of taxes Take due care to ensure both.

PAY TAXES RIGHT
BUILD NATION'S MIGHT

DIRECTOR OF INSPECTION
(Research, Statistics, Printing & Public Relations)
INCOME TAX DEPARTMENT
New Delhi 110001

davp/81/96

ration work remains to be done, so that large areas in which productive deposits of oil might possibly be found have yet to be investigated thoroughly. Hence, the potential for further discoveries may be considerable though it is still at present very uncertain.

V

The global reserves of natural gas are fairly abundant and there is very little likelihood of production being limited during the next 25 years. In order to exploit the global reserves of natural gas, it must be elevated from the role of a largely domestic energy resource to a major commodity in international market. At present, there are two alternatives. The first of these is liquified natural gas (LNG) which involves an energy loss of something around 25 per cent. There has already been significant start made in the international trade in LNG. The second major alternative means of transporting natural gas internationally is to convert it into methanol. While this is less expensive than LNG, it involves a 40 per cent energy loss. Thus, there are serious prospective limitations in the sphere of transporting and distributing natural gas from the well head to the consumers.

Historically, natural gas has been moved by pipelines and it has been proved much too expensive to trade in natural gas internationally with something like 30 per cent of domestic total energy supply being met by natural gas in the United States and around 47 per cent in the Netherlands. Natural gas is found in India both alone and in association with crude oil; but most of output comes from associated sources, and the only non-associated gas field is that at Cambay in Gujarat. The prospects for future discoveries of natural gas are as uncertain as those for crude oil.

VI

The wisdom of the moment is that nuclear power will substantially bridge the gap resulting from the decline in fossil fuel resources near the end of the century. The potential contribution of nuclear power to world's primary energy needs in 1985 and 2000 can roughly be calculated in maximum and minimum likely levels of installed nuclear electric capacity. The maximum figure is based on nuclear energy being the principal replacement for the current fossil fuels; the minimum figure is based on coal as the principal replacement for oil. The maximum likely projections would require an annual growth rate of 14 per cent per annum in nuclear energy for a 25 year period. This compares with a minimum likely projection figure of 11 per cent per year over a similar period. It will achieve this by providing the relatively low cost of nuclear electricity. However, the capital cost of nuclear power plants have been escalating at a phenomenal rate. The claims made by the proponents of nuclear electricity is that it has an outstanding safety record. Nevertheless, because of its radioactivity and its enormous potential for destruction, it is strenuously opposed in many countries.

India has goods reserves of thorium which will make construction of nuclear plants in regions located far from coal mines and hydroelectric resources an attractive possibility. Thorium is found in the extensive monazite sands of Kerala but full scale use of these resources will take a few years more, until a solution is found to the technical problem of using thorium as a nuclear fuel.

VII

There is, therefore, not much doubt that coal has the potential to be one of the major energy sources in the period from 1985 onwards. From the resource angle, as we have already seen, coal is beyond dispute among the most abundant global sources of energy in existence. The estimated economically recoverable proved global reserves of coal stand at 700 billion tonnes which is the equivalent of 3000 billion barrels of oil. The potential reserves are even greater, possibly as high as 12,000 billion barrels of oil equivalent. Because of the size of the resource base, i. e., the global reserves of coal, there is at least a theoretical possibility and practical probability that coal output will be significantly increased.

What remains in doubt is whether there will be sufficient number of consumers for such a pronounced increase in coal production. There are grounds for both hope and doubt. Part of the decline in the popularity of coal during the oil era has not only been a question of price but also the fact that compared with oil, gas and electricity, coal is both dirty and awkward to distribute. Most of the longer possibilities arise from the opportunities for technical improvements. Among the three main technical innovations utilising the present centralised energy system are coal's substitution for oil and gas in electricity generation, for process heating in industry and lastly coal conversion into oil and gas. The last means is especially expensive in both financial terms and also in terms of conservation since there are significant losses from the conversion process.

The significance of coal to the less developed countries, both as a substitute for oil imports and a rich potential source of future exports, has not yet been fully appreciated. Given the rate of rundown of oil and gas if commercial viability were none consistently in prospect coal can be produced soon, enough and this would not present a problem despite the long lead times and enormous financial investments.

In the matter of coal ulilization, research is now going on all over the world and also in India from minor developments like economical coal chullah to major coal gasification programmes, new forms of metallurgical coal, new ideas like coal refinery and obtaining various chemicals from coal. There is no doubt that many of these researches will develop into commercial success and thereby give coal its real status as a major source of energy in the world energy scene.

VIII

A special feature of world energy is its heterogeneity, i.e., alternative energy sources which include solar, geothermal, hydro and tidal energy, representing the heterogeneity of energy sources in the long term. The impact of the alternative energy sources before the end of this century is not likely to be substantial for a variety of discernible reasons. They have three main shortcomings: first, they provide only low grade heat; second, they demand as yet an inordinately high level of capital investment; and third, they are frequently located some distance from the ultimate centres of consumption, greatly increasing the storage and transmission costs.

WORLD ENERGY DEMAND TO 2020, ENERGY PROJECTIONS 1972-2020, ENERGY IN EXAJOULES (1018J)

	Energy Constrained High GrowthH5		
	1972	2000	2020
Secondary Energy Demand			
Fossil Fuel	156	306	440
Electricity	17	58	120
Wood, Solar etc.	31	59	82
Total	204	423	642
Primary Energy Demand			
Coal	66	143	361
Oil	114	195	194
Natural Gas	46	71	88
Nuclear	2	90	231
Hydro	14	34	56
Wood and Solar	26	52	75
Total	268	584	1005
Total Production	274	636	953
Net Imports	-(6)	-(52)	52
Primary Energy Demand	Unconstrained	High H3	
Unconstrained H3 and L3	268	730	1526
Primary Energy Demand	Normalised with 1972 = 100		
Unconstrained H3 and L3	1.0	2.7	5.7
Constrained H5 and L4	1.0	2.2	3.8
Total GNP	1.0	3.2	6.8
Primary Energy Demand	Average annual % growth		
	1972-2000	2000-2020	
Unconstrained H3 and L3	3.6	3.8	
Constrained H5 and L4	2.8	2.8	
Total GNP	4.3	3.8	

Source : A discussion paper prepared for the Conservation Commission of the World Energy Conference, 1977, *Energy Projections to 2020*, 1977.

IX

Energy demand will continue to grow simultaneously with economic growth, if more slowly than in the recent past. Slowdown in rate of energy consumption growth is likely to arise out of a combination of saturation effects, more effective use of energy both in the domestic and industrial sectors. Since the early seventies conservation, which had previously been a notion to which not much more than lip service was paid by both governments and businessmen, has become a central stand in attempts to come terms with energy future. A great deal of energy can very readily be saved with some forethought and planning and economically speaking energy conservation may well be the very best alternative available. Conservation is best achieved from improved efficiency subsequent to an increase in prices; they can also be achieved from the application of selective government action through regulation, taxes and a variety of progressive restraints and incentives. Improvement in industrial energy use can also be reinforced by conservation in buildings either by improved insulation or improved combustion and control. Transport is another sector where striking improvements in efficiency can and are expected to be achieved. Transport could still prove to be among the fastest growing energy consumption sectors because air travel is likely to increase fairly dramatically.

X

Conservation is the foundation upon which an effective long-term energy policy has to be built. In the adoption of a national energy policy, a fundamental distinction needs to be made between those policies which involve adaptation in order to improve efficiency and usually less fundamental changes which reduce consumption by bringing down the level of economic activity. The first policy is normally planned in advance and second is adopted by governments from sheer necessity under the pressure of inescapable events. The first policy is built upon such devices as improved furnaces and cars, less extravagent lighting and ventilation in commercial buildings, thermal insulation and heat pumps, while the second policy demanding substantial decrease in consumption of energy, involving a marked change in life style. This path is more radical in and unsurprisingly demands major readjustments, though not necessarily painful ones if they are embarked upon judiciously. These measures embrace car pooling, smaller cars, greatly extended mass transit systems, greater deployment of bicycles, encouragement of walking by the provision of more footpaths and walkways.

XI

Certain aspects of the post-1985 energy prospects require to be underlined. Energy will become an increasingly central issue in the final decades of the century. The transition from a predominantly oil energy system to something else is a challenge not only to the global energy system but the world economy as a whole. The transition from the oil era to its successor will be largely determined by thousands of individual decisions —both public servants and private citizens—who will be concerned with such issues as balance of payments, inflation, employment, etc. A majority of nations will remain heavily dependent on OPEC and the extent to which the OPEC nations can use their position to alter radically their relative position in international trade as a whole — in the sphere of commodity prices, and transfer of capital and technology — remain to be seen. There is, in fact, a future need to create new and flexible forms of international cooperation in energy where joint research programmes need help on the road to commercial utilization.

XII

The supply of oil will fail to meet an increasing demand before the year 2000, most probably sometimes between 1985-95, even if energy prices rise 50 per cent above current levels in real terms. Demand for energy will continue to grow, even if governments adopt vigorous policies to conserve energy. This growth in demand for energy must increasingly be satisfied by energy resources other than oil. The continued growth of energy demand requires that energy resources be developed with the utmost vigour. The change from a world economy dominated by oil must start now.

The alternatives require five to fifteen years to develop and the need for replacement fuels will increase rapidly as the last decade of the century is approached. Fusion power is not expected to be significant source of energy before the year 2000. Natural gas reserves are large enough to meet projected demand provided the incentives are sufficient to encourage the development of costly and intercontinental gas trensportation system. The resource base of other fossil fuels such as oil sands, heavy oil, and oil shale is very large but it is likely to supply only small amounts of energy before the year 2000.

Natural gas reserves are large enough to meet projected demand provided the incentives are sufficient to encourage the development of costly and intercontinental gas transportation system. The resource base of other fossil fuels such as oil sands, heavy oil and oil shake is very large but it is likely to supply only small amounts of energy before the year 2000 A.D. Other than hydro-electric power, renewable sources of energy — solar, wind power, wave power, geothermal energy — are unlikely to contribute significantly to additional energy during this century at the global level.

REFERENCES

1. E. C. Williams, Energy Policy and Planning — A General View, Institute of Fuel Conference (Lyndhurst, May, 1973).

2. Leslie Grainger, Coal Into the Twenty-First Century, The Robins Coal Science Lecture, (London, October 7th, 1974).

3. Gerald Foley, The Energy Question, Penguin.

4. D. C. I. Availability of Natural Resources, Goratham & Trotman.

5. Martin Ryle, The Economics of Alternative Energy Sources.

Scope for Tapping Renewable Sources of Energy

AS the global resources of fossil fuels like coal, natural gas and oil, which sustain the present industrialised world, are fast dwindling, it is feared that by 2000 AD, mankind will be facing insoluble energy crisis if proper utilisation of these resources on a global scale is not planned well in time. Besides this, we may have the prospect of facing the greatest health hazards we can ever imagine arising from pollution.

Close to half the world population depends on firewood and its derivative charcoal for cooking and heating. Studies show that about 100 million people in developing countries live in areas where there is acute shortage of firewood. Another 1000 million are able to meet their minimum requirements only by cutting in excess of sustainable supply. Under current trends of population growth, fuelwood demands and depletion of tree resources, over 2,300 million people will need to be provided with alternative fuels by the year 2000,

The hike in prices of petroleum products has further aggrevated the fuel crisis. The growth of population, combined with the growing needs of agriculture, industry and transport continue to swell the requirements of energy while there does not seem to be any prospect of oil prices being reduced by OPEC to suit the requirement of developing countries. It has been forecast that the world will positively run short of nonrenewable energy resources in the next century. According to longterm estimates, coal reserves will be exhausted in AD 2500, oil and natural gas in 2015. But according to short-term projections, coal will be depleted in 2083, oil in 1991 and natural gas in 1994. The known recoverable reserves of mineral fuels in the world are: Coal, 60,300 crore tonnes; Crude oil 545,000 crore barrels, natural gas 65,978.6 crore cubic metres; and uranium 9.84 lakh tonnes. Scientists all over the world are engaged in developing new technologies and alternatives to overcome these limitations. One such alternatives being tapped is solar energy.

Solar Energy

Sun is the greatest source of energy on this planet. It is the primary source of all power. The tremendous possibility of its being used as an alternative has enlivened the hearts of many nations and scientists all over the world are working to explore the best, cheap and the pollution-free source of energy. Scientists claim that if they could harness only 10 per cent of the total solar energy radiation received on earth by the year 2001, they can meet the energy requirements of all the nations of the world.

Since most of the fossil fuels are finite and exhaustible solar energy is infinite and in exhaustible. The sun supplies 20,000 times as much energy as man consumers from all sources. Consistent solar heat and strength is enough to supply the world's total energy needs by more than 30,000 times.

India being close to Equator has a tremendous potential of solar energy for its use. About 82 per cent of the country receives an abundant solar radiation annually, from an average 350 calories per centimetre per day to 550 calories. In other words, it has been estimated that on an average one square metre of area receives about one kilowatt of energy per year.

In terms of oil, 5 square metres of area receives as much energy in a year as is obtained from one tonne of oil.

Biogas

Biogas was identified long back by the Khadi and Village Industries Commission as one of the potential renewable sources of energy for rural application. Biogas is produced by subjecting organic matter like cattle dung to fermentation in a unit popularly known as biogas plant (gobar gas plant.) When organic matter like cow dung decays without oxygen, it produces a combustible gas, which burns with a smokeless blue flame. The composition of the gas is 50-60 per cent methane, which is combustible. The rest are impurities, like 30-40 per cent carbon dioxide, 5-10 per cent hydrogen, 4-6 per cent nitrogen and traces of hydrogen sulphide. An American research centre has developed a purification method to eliminate all the impurities and produce pure methane that can be fed into natural gas pipelines. A laboratory-size purifier has already produced pure methane gas.

Also there are other potential sources of biogas, such as, poultry and pig droppings, farm waste and aquatic plants. One of the promising sources is the water hyacinth, the perennial weed which is estimated to infest about 5 lakh hectares of area in the country. India has been the pioneer in the biogas technology.

The cattle population in India is nearly 237 million. Assuming the average wet dung obtained per animal per day to be 10 kg., and a collection rate of 66 per cent, the total availability of wet cow dung in the country would be 575 million tonnes per annum. This itself would enable production of 22,425 million cubic metres of biogas, which can replace kerosene oil to an extent of 13,904 million litres per year. In a biogas plant, apart from gas that is produced, enriched manure is also obtained as a by-product.

If the full potential of cattle dung were to be realised, 206 million tonnes of ogranic manure per annum would be produced in biogas plants, which would replace 1.4 million tonnes of nitrogen, 1.3 million tonnes of phosphate and 0.9 million tonnes of potash. In addition, various micro-nutrients would be produced, which could help in improving the fertility and structure of the soil.

About 80,000 biogas plants have been installed by the end of March 1980 with a capital outlay of Rs. 400 million. Kerosene equivalent of biogas produced from these plants is Rs. 130.40 million and manure obtained is 1.80 million tonnes, valued at Rs. 89.3 million. During 1981-82, the Khadi and Village Industries Commission proposes to set up 20,000 biogas plants. The target for the Sixth Five Year Plan is to construct four lakh plants by 1984-85.

Present costs of various types of and designs of family type biogas plants (of 2-3 cubic metres capacity) range from Rs. 2,000 — Rs. 4,500. The costs of community type biogas plants (of approx. 70–75 cubic metres capacity) range from Rs. 2 lakhs to Rs. 3 lakhs. Various agencies of the central and State Governments are participating in this programme and subsidies and soft-term loans are being provided through concerned agencies in the states for disbursements to the beneficiaries.

Hydro–Power

The sources of energy which we have hithero exploited have been coal and oil and both are exhaustible sources. Another proved alternative source of energy is hydro power and we in India have been able to generate a significant percentage of our requirement of power by harnessing river waters at appropriate places. The bulk of the hydro potential in the country is available in the North-Western and North-Eastern areas, particularly, in the states of Himachal Pradesh, Jammu and Kashmir and North Estern states, as well as in Kerala and Karnataka in the South.

Hydro-electric projects have a very significant role to play in the context of the massive power development programme envisaged in the ensuing five year period and the succeeding five year periods, both from the point of view of providing replenishable, clean and reasonably cheap sources of energy and from the point of view of exploiting the enormous potential available in the various river valley systems.

Presently, about 56 hydro-electric schemes with a total installed capacity of 10,169.5 mW. are under different stages of constructions. It is proposed to increase the proportion of hydro-power in the installed capacity by giving priority to hydro projects both in the State and Central Sectors. In this connection, 87 new hydel projects with total installed capacity of 16,963.5 mW have been identified for construction during 1980-85.

Wind Power

Wind power is another source which can be harnessed to a considerable extent in the present energy crisis. Windmills extract kinetic energy, and convert it into useful shaft power. The technology is old and proven. Wind machines have been traditionally used extensively in the past for such applications as grinding of corn, fodder cutting, pumping of water and in some cases for generating small amounts of energy. In fact, Europe, the United States, Russia and many other countries, have been using this device successfully for several decades.

Wind power can also be used as an attractive and promising source of energy in India. Its most important advantage is that it is available all over the land. Besides there are other advantages associated with it. These are simplicity of energy conversion requiring very little maintenance and zero fuel cost, and absence of pollution. However, the potential of wind energy on a country-wide basis is yet to be assessed accurately.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Self Sufficiency in Oil: ONGC's Role

By **P. T. Venugopal** *

With deepening oil crisis, the world is frantically trying to develop alternative sources of energy. Till it succeeds in its efforts, the incessant search for hydrocarbons goes on. For a developing country like India, passing through the oil cycle is inescapable. The ONGC ensures that this journey is made less rigorous and more rewarding.

THE Oil and Natural Gas Commission, the premier oil exploration agency in the country is celebrating its Silver Jubilee this fortnight. The history of discovery of oil in India, however, dates back to the nineteenth century when wells were drilled in Upper Assam at Makum, Margherita and Jeypur between 1866 and 1869 and oil was struck at a depth of 36 metres in the first well at Makum. But, these ventures did not prove to be commercial.

The Assam Railway and Trading Company started drilling in 1889 at Digboi and oil in commercial quantities was discovered. The Assam Oil Company was then formed. In 1915 the Burma Oil Company entered the picture. Exploration efforts continued intermittently till 1953, when Naharkatia and subsequently Moran oil fields in Assam were discovered. Oil India, a Joint company with Government of India and Burma Oil Company as shareholders was set up to pursue exploration and production work in Upper Assam. This company is now due to be taken over wholly by Government of India. Another joint venture, Indo-Stanvac petroleum project, carried out exploration work between 1953 and 1960 in West Bengal but did not meet with success.

It was in 1956 that India's policy towards oil exploration took a definitive shape. A petroleum division under the Geological Survey of India was first created. A delegation headed by Mr. K.D. Malaviya visited USSR, Sweden, UK, Netherlands, Rumania, France and West Germany to study the status of the oil industry and to ascertain availability of equipment and facilities for training. The petroleum division of the Geological Survey of India was raised to the status of a Commission and the Oil and Natural Gas Commission was formed on August 14, 1956. The Commission was charged with the task of planning, promoting and implementing programmes for exploration and exploitation of petroleum resources throughout the length and breadth of India. On October 15, 1959 the Commission was converted into a statutory body by an Act of Parliament.

In the initial years geological and geophysical surveys were undertaken exclusively, so as to locate prospective sites where wells could be drilled and tested for occurrence of oil or gas. The first well drilled was at Jawalamukhi where gas was struck in May 1958 in small quantities. In the same year, oil was struck in Cambay. This was followed by discovery of oil in Ankleshwar (1960), Kalol (1961), Sanand (1962) all in Gujarat and Rudrasagar (1960), Lakwa (1964) and Geleki (1968) in Assam and several other fields since then.

The first commercial production of oil and natural gas by ONGC was started from Ankleshwar field on September 1, 1961 at the rate of 100 tonnes per dey. With more fields producing oil in Gujarat, the Koyali Refinery was set up to refine indigenous oil. Crude from ONGC's oil fields in Assam started flowing from July 1968 and the Indian Oil Corporation's Refineries at Barauni, Gauhati and Bongaigaon depend on the supplies of ONGC's and Oil India's crude oil from Assam. From a total 0.4 million tonnes per year production from the on-land fields at the time of independence, today the on-land production exceeds 8 million tonnes per year.

In the late sixties and the decade of seventies significant breakthroughs were achieved around the world in the offshore element. A filip was given to the offshore efforts when OPEC countries repeatedly raised the crude oil price from 1973 onwards. While ONGC had been achieving steady success in its on-land operations, the realisation came in the first years of seventies that a debut had to be made in the sea. A Russian seismic ship had carried out reconnaissance work for ONGC in 1964-67 and had collected data that provided evidence of some promising structures in offshore Bombay. Detailed seismic survey works was accordingly taken up in these areas in in 1972-73. About the same time, ONGC placed an order in Japan for its first mobile offshore rig 'Sagar Samrat'. This rig arrived in India in May 1973 and moved to Bombay High structure in January 1974. On February 19,1974 oil was struck here and following drilling of a number of appraisal wells the Bombay High field came into the category of a 'giant' field.

More rigs, owned and chartered by ONGC have been operating in the offshore and there have been significant discoveries. The South Bassein gas field, half way in the sea between Bombay city and the Bombay High field is again a 'gaint' field with a gas reservoir. Then there are the Rathnagiri offshore structures, a string of them, two of which have been tested for oil. North Bassein (Panna) and Heera structures in the vicinity also have oil. Tapti structures arealso new finds and these are gas bearing In the Bay of Bengal, three promising basins have been opened up. In Godavari offshore, oii and gas has been discovered in a structure in the deep water area, where the water depth is over 950 metres. In Andaman offshore, gas has been struck. Off Pondicherry again there is gas. Considerable amount of further exploratory work remains to be done in Rathnagiri, Tapti, Godavari, Andaman ane Pandicherry structures before their potential is assessed.

---

* Chairman, Oil and Natural Gas Commission.

While exploration is in progress. it is also necessary to develop and produce from fields already discovered. Bombay High field has been under development for a few years now and currently a rate of production of 8 million tonnes per year (160,000 barrels per day) has been reached from this field. Associate gas is supplied to a power station and a fertiliser plant at Bombay. With further development of Bombay High by adding more fixed well platforms and process platforms and with development of North Bassein, Heera and one of the Ratna fields the production rate of crude oil from the offshore can go beyond 20 million tonnes per year in 3 to 4 years.

South Bassein gas field is also being taken up for development, for the gas to flow to Bombay and Gujarat by the end of 1983. In due course the already discovered gas fields on the west coast will produce over 20 million cubic metres of gas per day, enough to provide feed-stock for ten new major fertiliser units and at least two petrochemical units. Besides Liquified petroleum Gas (Cooking gas) extraction from natural gas may well exceed one million tonnes per year. Even now, offshore associate gas is transported to Bombay by pipeline where some LPG is extracted at the newly commissioned LPG plant at Uran.

For on-land expoloration and exploitation too, ONGC has set itself definite goals. Exploratory drilling is being continued vigorously in the known petroliferous areas of Gujarat, Assam, Tripura and Nagaland. Exploratory drilling is in progress in West Bangal and Andhra pradesh. In Andhra Pradesh, gas was met with in the first well drilled. In the rest of the country, in many parts, exploratory drilling had been carried out in the past, but hydrocarbons were not dicovered. But that does not mean that these areas are to be written off. More work has to be done, and the first step would be carrying out of more seismic survey using modern techniques. This is exactly what is under implementation, as for example in Rajasthan, Himalayan foothills, Ganga Valley, Tamil Nadu and so on.

ONGC is conscious that all of its 25 years' efforts have resulted in the country's indigenous oil production meeting only a little over 45 per cent of the needs today although in terms of foreign exchange saved, at the present rate of production, it is Rs. 10 crores a day. As more discovered fields are developed this percentage will go up. However, there is an urgency to discover more new fields, and the scope for this is far from exhausted.

ONGC has framed a plan for the five years ending 1984-85 (Sixth Plan period), involving an outlay of Rs.4,788 crores at current prices. This will be over and above what Oil India would spend. Besides there may be foreign oil companies who may be licensed by Government to work in such areas where ONGC will not be working. However, ONGC will be actively associated with the operations of these companies.

PROGRESS OF RURAL ELECTRIFICATION IN INDIA'S FIVE YEAR PLANS

THE use of electricity in agriculture has registered phenomenal growth since the mid-sixties when the programme of energisation of pumpsets was given priority thrust. In 1965-66, the consumption of electricity in the agricultural sector was 1892 million K.W.h. and its share in the overall consumption was 7.1 per cent. In 1979-80 the agricultural consumption had increased to 13,189 million Kwh and its share in the overall electricity consumption was 16 9 per cent. The growth rate in the Northern region has been substantially faster than that in the other regions. It is of interest to observe that in Punjab agriculture accounts for about 46 per cent of the overall electricity consumption.

It would be observed that the specific consumptions per pumpset and per KW of connected load in the Northern Region are substantially higher than those in the other regions. It would be apparent that while the role of electricity in agriculture has steadily increassd in the entire country, in the Northern Region its use has become dominant making agriculture extremely sensitive to power availability. The extension of electricity for agricultural pumping has been given high priority in the Sixth Five Year Plan. The ultimate irrigation potential based on ground water considered feasible for exploitation is estimated at 40 million hectares in the country as a whole.

The States which have large untapped resources are Uttar Pradesh, West Bengal, Bihar, Orissa and Madhya Pradesh. The Sixth Plan progrmme envisages special attention to pumpset energisation in these States. With the ground water potential available in the country it is estimated that there is scope for installation of 120 lakh pumpsets spread over in different parts of the country. Keeping in view that 40 lakh pumpsets had already been energised at the beginning of the plan, the Sixth Plan envisages energisation of 25 lakh pumpsets during the plan period.

It would be observed that the agricultural consumption in the Northern Region would continue to be an important component taking a share of as much as 26.41 per cent. Its share in the availability of energy anticipated in 1984-85 based on programme of commissioning of projects in the Sixth Plan is expected to be somewhat higher. Thus, the role of electricity in the agricultural sector will continue to grow and electricity will become the most important input in increasing and assisting the agricultural production.

The pattern of investments in rural electrification programmes during fifties was directed more towards village electrification which was a social amenity to people in rural areas. The emphasis was shifted to energisation of pumpsets after the mid sixties with the aim of increasing agricultural production. An expenditure of Rs. 450 crores was incurred on village electrification and pumpset energisation programmes.

Road Development : Need to Improve National Highways

By **Sardar Buta Singh** *

India has taken great studies during the era of planning in expanding the road net work but deficiencies remain. For instance, 55 per cent of our villages are yet to be connected by all-weather roads. Even the national highways need upgroding. In this article, Sardar Buta Singh, Union Minister of State for Shipping and Transport surveys the progress made and the task to be achieved during the Sixth Plan.

DEVELOPMENT of Road Transport is inextricably linked with the development needs of a country's economy. Although India is a developing country, it has an extensive road network which serves all types of surface transport vehicles—trucks, buses, cars, tractors, animal-drawn carriages, scooters/mobikes and bicycles. Apart from carrying traffic independently from point to point, our road system is the main feeder to the rail system, airports, major ports, and harbours. They connect state capitals, industrial complexes and places of tourist importance and provide links to the foreign National Highways and thus form part of an integrated transport network. In almost all areas not served by railways, roads are the only means of transport and communications. Roads are also one of the basic infrastructures for socio-economic development, particularly of backward and tribal areas.

Land routes covering great distances existed at the dawn of recorded history. In earlier times, roads were needed for trade, conquest, and most important, civil administration. The real pressure for road development started mounting up with the advent of bicycle and later the automobiles. The increase in automobile traffic requires more roads and better road surface. While the history of road development in India goes back to the early ages, organised effort at road building at the national level in the recent past may be traced to the year 1929, when the Jayakar Committee considered schemes for improvement of the road system in a comprehensive manner. It was on the recommendations of this Committee that the role of the Central Government in regard to development of the road system was recognised. Later, in 1943, Chief Engineers-in-charge of roads in the country met at Nagpur to consider the requirements of the road system over a twenty-year period beginning December, 1943. The Nagpur Plan classified roads as national highways, state (or provincial) highways, district roads and village roads, and prescribed standards, norms and targets for road development of various categories.

The present total length of road network in the country, excluding the Urban Roads and Project Roads, is about 12 lakh km comprising around 31,000 km of National Highways, 3,70,000 km of Rural Roads. Although a lot of progress has been made including widening to 2-lanes of thousands of kilometers and construction of hundreds of bridges on National Highways and expansion of road network by 200 per cent during the past thirty-four years after independence, we have still to go far. For instance, 55 per cent of our villages have yet to be provided with all weather roads. And within the framework of the road system, predominant role is held by National Highways which are the main arteries running through the length and breadth of the country. While in 1947, the NH length was 21,440 km, today it stands at 31,358 km and can be said to serve all states. While they constitute 6 per cent length of surfaced road lengh, they carry about 25 to 30 per cent of total road transportation load.

However, there are several deficiencies requiring attention such as widening of 7,000 km. of single-lane roads to two lanes, strengthening of pavement in a length of over 12,000 km, reconstruction of about 200 major bridges and 2,000 medium and minor bridges. Similar is the situation with respect to State Roads. A broad assessment of the deficiancies in respect of both quantity and quality of the road network has indicated that investments to the tune of Rs. 2,500 crores for Primary Roads comprising National Highways, Rs. 4,000 crores for Secondary Roads comprising State Highways and Major District Roads and Rs. 11,000 crores for Rural Roads would be involved for having a road system capable of handling the foreseeable transport demands of the country. The financial requirement leaves no other choice to us but to think in terms of phased development of each of the three groups of roads. All the three categories are to be developed in a balanced menner.

Though in principle the terms 'roads' and ,highways' are synonymous, in practice 'highways' is used only for more important thoroughfares. The term 'road' is used in a narrow sense to denote routes of minor or local importance, but it also retains its broader meaning of any prepared route on land destined for the movement of goods and persons. Under the Constitution, the Government of India is primarily responsible for the development and maintenance of roods declared as National Highways. Besides this, Government of India also provides loan assistance to States for road and bridge works of Inter-State and/or economic impartance. The Government also provides financial assistance by way of grants-in-aid for the schems of road communications in the sensitive border areas and strategic roads. In so for as National Highways are concerned, the achievements during the period 1.4.47 to 31.3.1981 is as under:

---

* Minister of State for Shipping and Transport, Govt. of India.

(i) New construction/ missing links, by passes, diversions etc.	4,380 km.
(ii) Major bridges (missing) damaged, weak, narrow & submersible).	354 Nos.
(iii) Improvement of low-grade surface	23,000 km.
(iv) Widening of single-lane sections to double -lane carriageway with or without strengthening.	20,000 km.

It may also be mentined that substantial achievement has been made in the activity of bridge construction of National Highways. About 354 major bridges including missing bridges have since been completed. And, over 3,000 weak and narrow midium and minor bridges have been replaced by constructing stronger and wider bridges in their place. In financial terms, expenditure aggregating to about Rs. 950 crores has been incurred on the developyment/ improvement works the National Highways System since 1947 upto March, 1981. During the current financial pear, an amount of about Rs. 100 crore is proposed to be spent on the development of National Highways in the country. It has been broadly assessed from the input made so far which works out to Rs. 3.1 lakh per kilometer, while at the same time the input per kilometer for the other State roads of all categories has been of the order of Rs. 30,000 per kilometre.

Even with this input, the development of National Highways has lagged behind both in the road length and in the load carrying capacity. The present National Highways network is grossly inadequate to meet the traffic needs. The route length consists only 6 per cent of the total surfaced road length in the country. Moreover, 37 per cent of the NH network is still single-lane in width. The traffic intensity on some important sections requires total improvement including multi-laning particularly at the approach to the metropolitan and other industrial complexes. There are still some bridges and culverts which are narrow, weak or submersible. They need reconstruction and upgradation.

The need and urgency for promoting the operations of truck-trailer combinations and heavy axle load vehicles in the country have been felt and recognised with a view not only to facilitating the transporting of goods at economical cost but also to help achieve savings in fuel consumption which is of considerable importance to the country. To achieve this, the total length of the major arterial routes requiring strengthening has been evaluated as 12.000 km. to start with. During the 1980-85 Plan, it is proposed to tackle about 3,500 km. for which an outlay of Rs. 60 crores has been earmarked.

Apart from the developmental activity of the National Highweays System, due attention is being paid on the activity of Highway Research and Development and planning Studies to keep pace with the latest design techniques being evolved in other developed countries. In this connection, the Organisations both at the Centre as well as at the State levels are being strengthened to derive adequate benefits.

The Planning Commission has aproved an outlay of Rs. 830 crores for the development of roads in the Central Sector Programme during the 1980-85 Plan. This inter-alia includes an outlay of Rs. 660 crore for the development/ improvement of National Highways. Of this, an outlay of Rs. 250 crore is meant for completing the 'on-going' works period and Rs. 50 crore for the development of roads which are to be added to the National Highways system in this Plan period and another Rs. 60 crore for further strengthening the major arterial routes for promoting truck-trailerisation so as to economise in the fuel consumption. The balance amount of Rs. 300 crores is for the improvement of the existing National Highways system to meet the traffic needs.

WORLD OIL CONSUMPTION EXPECTED TO DECLINE BY 3 PER CENT IN 1981

WORLD Oil consumption is expected to fall by 3 per cent in 1981 following an estimated decline of 6 per cent in 1980 and a negligible increase (about ½ per cent) in 1979, according to estimates in a suplementary note in the *World Economic Outlook* released by IMF. The continuing lagged impact of higher oil prices —accentuated in the United States by the decision to accelerate and broaden decontrol—and the slow growth of real gross national product (GNP) account for the expected decline in consumption in the industrial countries. Increasing balance of payments difficulties, caused in part by rising oil bills, will lead to reduced consumption in many developing countries as well. The expected upturn in economic activity in the industrial countries is likely to lead to some increase in oil consumption in 1982—although this is still expected to be below the 1973 level and substantially below the 1979 peak.

The world oil market is expected to remain soft throughout the rest of 1981 and 1982, the report states. This forecast, however, would change in the event of any new production cutback or supply interruption—especially if accompanied by an unforseen significant increase in oil demand. The decline in oil consumption results not only from a shift to other energy products. Total energy consumption by industrial countries is estimated to have fallen by 3 per cent in 1980 after an increase of only 2½ per cent in 1979. Evidence suggests that higher energy prices have led to permanent adjustments and improved efficiency in energy use. Calculations based on historical data and cross-country comparisons for most of the industrial countries, which assume the present real price of energy and a real GNP growth rate of 3 per cent, suggest that industrial countries' energy demand is likely to remain roughly unchanged through 1985. Energy demand in developing countries, however, is more income-elastic, and there are only limited possibilities for energy conservation. Therefore more rapid development in these countries is likely to lead to increased energy consumption.—*IMF Survey.*

Capitalism versus Socialism

THE ideological polarisation into capitalism and Socialism has been exerting a great influence on the thinking of scholars all over the World. As a result, many of them are fast becoming committed to either capitalism or to socialism and the impression one gets from their writings is that of a subjective analysis. In such a situation, a reader, uncommitted to either of the two isms, has to exercise more than the usual alertness in order to get the right perspective.

Though the books* under review have undoubtedly been authored by the scholars committed to the socialist system in general and to the Soviet socialist system in particular, their arguments proclaiming the superiority of the socialist system over the capitalist system cannot be easily set aside. Apart from the historical handicaps of the capitalist system, an overview of happenings in the recent years and the attitudes of developed capitalist countries towards the problems of poor developing countries go a long way in proving the authors' view points.

The book by D. Challappa is a comparative analysis of the capita- and the socilist systems broadly represented by the U.S.A. and the U.S.S.R. respectively. Challappa perceives the capitalist system as one of profiteers, cutthroat competitors and of monstrous exploitaters. The very foundation of capitalism rests upon the exploitation of workers and elimination of rivals. In such a system, where natural and human, scientific and technological resources are geared towards the profit of a few at the cost of mass-welfare, class contradiction is inevitable and the economy has to pass through crisis from time to time.

Challappa deals with the militarisation policy of the U.S.A., deflationary measures adopted by the capitalist countries in the wake of inflation and economic crisis and their impact on workers and developing nations; the growth of monopoly and multinational corporations and their operations at home and in the developing countries. The author also touches upon the growing antagonism among the countries of capitalist groups such as the NATO, the EEC and others. Besides, the author also argues as to how the international financial institutions such as IBRD and IMF on the one hand and the capitalists states on the other have been helping the MNCs in their pursuit of exploitation in developing countries as well as in their home states.

In contrast to the capitalist system, the socialist system in the U.S.S.R. and its planned development has all the plus points which the author highlights with the help of statistics. Planned development under the Soviet socialist systems is not only crisis-free but also free of unemployment. Unlike in the U.S.A., all the essential social benefits such as educational and medical facilities are assured to people in the U.S.S.R. and more and more attention is being paid to the betterment of the living standard of people. While the scientific and technological developments in U.S.A. are used for earning the profits for a few, displacements of human labour by machines, and for the exploitation of common people at home and abroad, the U.S.S.R. uses them for the development and welfare of people at home as well an abroad. While the capitalist countries have been causing brain-drain from the developing countries, the U.S.S.R. has been helping the developing countries in the training of their personnel. Further, while the antagonism among the countries of capitalist groups is becoming acute day by day and they are vying with one another in the exploitation of developing countries, the countries of the socialist group (such as C.M.E.A.) not only complement each other in the process of development, but have also been making a concreted effort towards the development of developing countries. So the argument runs.

The second book by E.S. Nukhovich discussing aid relationship between the developed capitalist countries and the developing couutries on the one hand, and the same between the socialist countries and the developing countries on the other, criticises the former and euloglses the latter. The author argues that as the capitalist countries are now unable to keep up the old colonial relationship with the developing countries, they have been devising neo-colonial strategies. Economic aid is being increasingly used in order to keep the young nations within the orbit of world-capitalism. However, as several young nations have chosen the path of non-alignment and are quite assertive about their national interests, the capitalist mechanism has not been able to achieve the desired success. As a result, while the capitalist aid to the developing countries has been declining, investment by MNCs has been consistently increasing.

The American, West European and Japanese monopolies with the generous support of the capitalist states and the international financial institutious have been playing a dominant role in the developing nations of Asia, Africa and Latin America. They have captured various key-sectors in the developing countries integrated themselves with the local capital, and with the help of their economic power they have been playing a dominant role in the planning and policy making of the capitalist and the developing countries.

---

* *Economic Stability versus Crisis:* A comparative study of the economies of the Socilist and the Capitalist countries by D. Challappa; Pp. 128; price Rs. 35. *Economic Relations with the Developing World:* (An analytical study of capitalist and socialist approaches) by E. S. Nukhovich; Pp. 112; Price Rs. 35. *The Soviet and the Chinese Economy:* A Comparative Study by Vinod Mehta, Pp. 184 Rs. 55 — all published by Sterling Publishers, New Delhi-110029.

Further, various aid arrangements such as expert personnel services, transfer of technology and commodity aids are manipulated by the capitalist states and MNCs in such a way that while the maximum benefit is assured to MNCs, the developing countries remain perpetually indebted.

It is the author's contention that aid provided by the U S S R. and the C.M.E. A. to the developing countries are not for exploitation but for the development of LDCs. Both the above discussed books are quite vehement in criticising the capitalist countries, but they fail to reveal the negative aspects of socialist systems. Prickly situations like the one being witnessed in the Poland remain untouched.

The book by Vinod Mehta provides a comparative picture of developments in USSR and China. Despite the inadequacy of comparable data about the Chinese economy, Mehta has succeeded, to a considerable extent, in his attempt. The main thrust of Mehta's argument is that while the Soviet system of planning for development has been able to deliver the goods,the inconsistency of the Chinese approach has proved to be the real hurdle.

The author begins with analysing the prevailing conditions at the time of the establishment of communism (or socialism) in both the countries. According to the author, while USSR was the first country to go red witnout any ideological and economic support from any other country, the Chinese had the advantages of about three decades of Soviet experience. Besides, the Soviet Union was there to provide ideological and material support to China. She did provide them till 1959, when China broke away from U S S R.

While USSR first favoured the development of heavy industries, and agriculture was made to yield surplus for investment in the industrial sector, the Chinese, after breaking away from USSR, favoured the development of agriculture and small scale industries. As a result, while the soviet agriculture could be mechanized and subsequently developed fast, the Chinese agriculture remained backward. Though both the countries import foodgrains, while China imports grains for feeding its people, USSR imports grains for exporting to its satellites and for feeding the animals.

Since enough attention was not paid to basic industries in China, neither agriculture nor industries could prosper to the desired extent. As a result, while the Soviet Union possesses today a developed economy, the China is still reeling under poverty. Further, while the income-disparity in the U.S.S.R. has appreciably declined through various measures and the per labour productivity has increased, China has been lagging far behind on both the fronts.

Earlier, China broke away from the Soviet Union on the ground that the Soviet version of Marxism was not pure, but the Chinese, after the death of Mao, have openly been holding negotiations with the capitalist countries and inviting MNCs to make investments in the key-sectors. Despite the author's candid arguments based on piecemeal statistical support, the varying conditions (natural, political and demographic) in the two countries inhibit a sound comparison.

— A. N. Pandey.

BOOKS RECEIVED

Centre-State Financial Relations by Hemalata Rao, Rs. 40. Pp 203; *Trends and Issues in Indian Federal Financę* by Raja Chelliah and associates, Rs. 60, Pp. 182; *Marketable Surplus and Market Dependence in a Millet-Region* by M. V. Nadkarni Rs. 60, Pp. 176; *Conglomerates and Multinationals in India* by N. S. Siddarthan, Rs. 50, Pp. 115; *Food Trends and Prospects in India* by Fred H. Sanderson and Shyamal Roy (Brookings Institution Study) Rs. 40, Pp. 162; *Primary Education, Popluation Growth and Socio-Economic Change* by P R Gopinathan Nair, Rs. 65, Pp. 192; *A Long Way To Go* by Suma Chitnis (report on a Survey of Scheduled Caste High School and college students in 15 states in India) Rs. 108, Pp. 350 — all published by Allied Publishers Private Limited, 13/14, Asaf Ali Road, New Delhi-110 002.

EVALUATION STUDY ON DIR SCHEME

Under the Differential Rate of Interest Scheme (DRIS) Banks advance credit at a concessional 4 per cent rate of interest to the weaker among the weak, i.e., those whose annual household income does not exceed Rs. 2000 in the rural areas and Rs. 3,000 in the other areas. In order to assess the impact of such credit on the borrowers, Punjab National Bank conducted an evaluation study in two of its lead districts, namely, Bharatpur in Rajastan and Mohindergarh in Haryana. This was a pilot study and 100 beneficiaries were interviewed for the purpose besides the managers of the six of its branches which financed these borrowers. The study revealed that bank assistance helped the beneficiaries in three ways: generation of additional employment, change in occupation pattern and improvement in the levels of income. The total population of 100 sample households was 568 of which 221 were adults. The number of persons engaged in any gainful economic activity was 144 before availment of credit facility under the Scheme. Their number increased to 196 after the expansion of their economic activities with the credit assistance.

Out of 100 borrowers, the change of occupation following availment of DRIS credit was reported by 20 borrowers. Of these 17 were agricultural labourers who changed over to occupations such as dairying, shoe–making and rope-making and so on. After the availment of credit, the number of borrowers in rural areas with the annual income of Rs. 2,000 and less declined from 45 to 17. Similarly, in the semi-urban areas the number of borrowers with annual income of Rs. 3,000 and less came down from 34 to 20.

BANK RESULTS — 1980*

Good Performance by UCO Bank

UNITED Commercial Bank, a major public sector institution having all-India net work, has established a new record in branch expansion in 1980. Against the previous record of 139 branches opened in 1973, the bank opened 148 branches during 1980. Most of the new branches, 122 to be precise, were opened in rural areas. At the end of 1980, the bank's global deposits stood at Rs. 1,905.41 crores compared to Rs. 1,493.35 crores at the end of 1979. UCO Bank's deposits in India stood at Rs. 1,608 crores compared to Rs. 1,269 crores in the previous year, thus showing a growth of 26.70 per cent.

The bank's total advances rose from Rs. 917.06 crores to Rs. 1,125.41 crores. The rise in the priority sector advances was from Rs. 234.82 crores to Rs. 306.46 crores. Advances in India stood at Rs. 752.35 crores while those outside India amounted to Rs. 53 crores. In keeping with the requirements of the contractionist policy of RBI, the bank has been able to bring down the credit-deposit ratio from 61.47 per cent to 58.98 per cent. The bank's investments went up by Rs. 66.46 crores, to reach Rs. 424.15 crores at the end of 1980.

The bank had outstanding loans amounting to Rs. 127.75 crores at the end of 1980 in the agricultural sector. Of this, Rs. 101.19 crores constituted direct finance. It is signifiant that nearly 56 per cent of this went to small and marginal farmers. The bank's advances to small industries have also shown an improvement from Rs. 76.80 crores to Rs. 89.82 crores. The bank's advances under DIR scheme increased from Rs. 4.57 crores to Rs. 6.78 crores. The bank's total income rose from Rs. 124.98 crores in 1979 to Rs. 158.19 crores while its total expenditure rose from Rs. 122.76 crores to Rs. 155.91 crores. Its net profit, which stood at Rs. 2.22 crores in 1979, improved to Rs. 2.28 crores in 1980.

Great Strides By Bank of Rajastan

THE Bank of Rajasthan Limited has taken great strides in 1980. The Bank's deposits, which stood at Rs. 102.47 crores at the end of 1979, rose to 125.65 crores at the end of 1980, showing agrowth rate of 21.62 per cent. The bank's credit increased from Rs. 60.53 crores to Rs. 72.01 crores. The bank has been able to step up the credit-deposit ratio in rural and semi urban areas from 50.44 per cent and 44.98 per cent to 66.15 per cent and 50.02 per cent respectively. Outstandings under priority sector advances rose from Rs. 13.99 crores (excluding export credit) to Rs. 21.81 crores—a rise of nearly 60 per cent. Within the priority sector, the bank stepped up credit to small industries and agriculture in a spectacular manner. The bank's net profit, which amounted Rs. 23.11 lakhs in 1979, has improved to Rs. 23.66 lakhs in 1980. It has declared a dividend of 12 per cent. The bank had 210 branches at the end of 1980, against 192 branches at the end of 1979.

Commendable Progress By Bank of Madura

Bank of Madura Limited made a net profit of Rs. 17.71 lakhs in 1980 compare to Rs. 11.10 lakhs in 1979. The bank's deposits rose by Rs. 20.66 to reach Rs. 117.29 crores at the end of 1980. The deposit growth rate of 21.3 per cent achieved by the bank is higher than the all-India average. The bank's advances recorded a growth of 23.2 per cent, to reach Rs. 86.37 crores. The bank has stepped up its priority sector advances by 59 per cent to reach Rs. 31.17 crores. The bank opened 8 branches during 1980, taking the total number to 206. There has been an improvement in the bank's foreign exchange business from Rs. 75 crores to Rs. 93 crores. Profit from this source improved from Rs. 22.59 lakhs to Rs. 30.23 lakhs. The bank's chit fund operations are being wound up in a phased manner, according to RBI's directives. Most of the branches of the bank—174 out of 211 branches—are located in Tamil Nadu.

Dhanalakshmi Bank Earns More

The net profit of Dhanalakshmi Bank Limited showed an improvement from Rs. 3.55 lakhs in 1979 to Rs. 3.61 lakhs in 1980. The bank has declared a dividend of 10 per cent. Deposts of the bank, which stood at Rs. 28.16 croros in 1979, rose to Rs. 37.34 crores, showing a growth rate of 33 per cent. The bank's credit expanded by nearly 40 per cent to reach Rs. 19.81 crores. The bank has a net work of branches numbering 109. The majority of these branches are located in Kerala.

Ratnakar Bank Shows 41 P.C. Deposit Growth

THE deposits of Ratnakar Bank Ltd., Kolhapur (Maharashtra) registered a growth of 41 per cent, increasing from Rs. 7.72 crores in 1979 to Rs. 11.52 crores at the end of 1980. The bank's advances, which stood at Rs. 5.19 crores, at the end of 1979, rose to Rs. 7.71 crores at the end of 1980. Of this, priority sector advances accounted for Rs. 2.39 crores. The bank's investments have been stepped up to Rs. 2.51 crores. The bank has an ambitious programme to step up the deposits to Rs. 25 crores and the number of branches to 75. Despite the good performance, the bank remains in the red in view of the requirement to set off the surplus towards a Rs. 21-lakh fraud which had been committed in its Mandvi (Bombay) branch in 1975.

---

* This is in continuation of the results published in our Mid-Year Banking Survey of July 15.

Oberoi Group Poised to Forge Ahead

EAST India Hotels Limited, which is in the market with its hefty Rs. 7.50–crore convertible cumulative debentures issue, has turned out good performance during the year-ended March 31, 1981. The company's annual report, which has just been released, shows an increase in its sales and profits. Sales have increased from Rs. 29.11 crores in 1979-80 to Rs. 32.77 crores in 1980-81. The gross profit also followed this trend, recording a rise from Rs. 10.76 crores to Rs. 11.70 crores. The company's net profit stood at Rs. 7.12 crores, against Rs. 5.93 crores in the previous year. The company, which has a net-work of prestigious hotels abroad, earned foreign exchange worth Rs. 27.49 crores compared to Rs. 26.38 crores in 1979-80. The "Oberoi group" of hotels, numbering 25, has established an excellent reputation for professionalism. The company has declared equity dividend at 22 per cent, taxable.

Apart from the hotels it owns in the major metropolitan cities of Bombay, Delhi and Calcutta and also in the major holiday resorts like Srinagar, Jaipur, Darjeeling and Simla, the company proposes to set up five-star hotels at Bangalore, Hyderabad and Bhubaneshwar. It has plans to build a new hotel with 300 deluxe rooms at the site adjacent to the Oberoi Towers at Bombay. With the implementation of this project, the hotel complex at Oberoi Towers with 700 rooms at present will comprise 1000 hotel rooms and would thus become the largest hotel in India. The convertible debentures issue, which is in the market, has certain distinguishing features. Interest will be compounded at half yearly rate and will be accumulated/adjusted and paid at the time of conversion redemption. This in effect will give a return of more than 23 per cent to the investors.

GEC Earns More

The pre-tax profits of the General Electric Company of India Limited for the year ended March 31, 1981 amounted to Rs. 4 95 crores as compared with Rs. 3.66 crores for the previous year. A sum of Rs. 2.94 crores net has been provided for taxation. After transferring Rs. 5.93 lakhs to Investment Allowance Reserve and transfer from Development Rebate Reserve of Rs. 0.74 lakhs, the balance of Rs. 1.96 crores is available for appropriation. The directors have recommended an equity dividend of Rs. 1.50 per share.

Better Performance by Coromandel Fertilizers

DURING 1980, Coromandel Fertilizers Limited has shown a turnover of Rs. 61.62 crores against Rs. 56.19 crores in 1979. The company's profit, after providing for depreciation and taxation, stood at Rs. 3 91 crores against Rs. 3.63 crores in the previous year. The dividend has been maintained at Rs. 2 per equity share. In terms of volume, the production of complex fertilisers was lower, at 2.39 lakh tonnes, compared to 2.45 lakh tonnes in 1979. This was mainly due to power cuts. The company has made good progress on its cement project.

Higher Earnings by English Electric

THE English Electric Company of India Limited has recorded a gross income of Rs. 30.07 crores during the year ended March 31, 1981 compared to Rs. 25.28 crores in the previous year. The pre-tax profit, which stood at Rs. 5.30 crores in 1979-80, has improved to Rs. 6.35 crores in 1980-81. The after-tax profit amounted to Rs. 1.93 crores, against Rs. 1.65 crores in the previous year. Equity dividend per share has been stepped up from Rs. 2.20 to Rs. 2 50.

The company had achieved impressive growth in production, despite inadequate power supply and labour problems. The construction of the company's new factory for fusegear products at Hosur, in Tamil Nadu, has almost been completed. Production has commenced and should reach the planned level during the latter half of 1982. Plans have been prepared to expand the relay and control panel activities of the company's Pallavaram Works, in Madras. The company has further expanded the Marconi range of instruments during the year, with the introduction of modulation meters. The relay range was expanded by the introduction of more types of static relays. During the year, the company received two letters of intent for effecting substantial expansion in the manufacture of combination fuse switch units and medium voltage air circuit breakers. These will be converted into industrial licences soon.

Pfizer's Results Affected by Strike, High Cost

THE sales turnover of Pfizer Limited during the year ended November 30, 1980 amounted to Rs. 45.28 crores, compared to Rs. 46.37 crores in the previous year. Similarly, the company's net profit registered a decline from Rs. 2.71 crores to Rs. 2.41 crores. The adverse results are due to the strike which paralysed the working of the company's plant for nearly 3½ months and also the rising costs. Added to these adverse factors, the Government's refusal to allow the price increases asked for by the drug industry has affected the company's working results.

During the year, the company received two letters of intent from the Government of India—one for the manufacture of two anthelminitcs and the other for four medium-spectrum antibiotics. In both these cases, the approvals are for the manufacture of the bulk drugs as well as formulations. The company is evaluating the economic viability of these projects.

SOUTHERN
ECONOMIST

September 15, 1981

CONTENTS

EDITORIALS 1
Sixth Plan Riddles;
Focus on the Poorest;
India and Her Neighbours

CURRENT TOPICS 3
Setback in Food Production;
Good News on Oil Front;
Sugar Prices; French Connection

The Parallel Government of A. R. Antulay 5
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Muddled Thinking on Backwardness: Need for New Approach
By K. K. Upadhyaya
Economic Costs of the Fertiliser Policy in India
By P. Leela
Trends in Fertiliser Consumption and Profitability in Indian Agriculture
By P. V. Sarma
Increase in Life Expectancy in India
By Sankaran
Indian Industry—Performance and Guidelines
By Brij Mohan Sharma
India's Exports of Turnkey Plants: Some Evidence on Technology
By S. A. Anwar

BOOK REVIEWS 24

BANKING WORLD 26

COMPANY NOTES 27
Mukand Iron; Colour-Chem; Reckitt & Colman; Larsen & Toubro; Enfield India; Seshsayee Paper; CPIL; GIIC

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Sixth Plan Riddles

THE new Planning Minister, Mr. S. B. Chavan, sounded mildly optimistic over the working of the Sixth Plan during the debate on the subject in the Rajya Sabha last week. The debate itself was prosaic and lack-lustre, with no opposition member taking the trouble to get at the sore spots. The main thrust of the debate should have been on (a) the steady erosion in the authority of the Planning Commission, as reflected in the lack of rapport between *Yojana Bhavan* and various economic ministries and (b) the feasibility of raising resources of the order required for the plan in the context of the fall in the value of the rupee during the past two years. No one asked why Mr. N. D. Tiwari, who was doing well as the Planning Minister, had to be shifted to Industry.

Be that as it may, the Sixth Plan debate highlighted certain relevant issues. One such issue is the rate of the population growth which, as the 1981 census showed, seems to be higher than that assumed in the Plan. But the planners can take comfort from the fact that the baby boom of the late seventies or early eighties will exert a pressure on the employment market only in the nineties and later. Nevertheless, they recognise the need to intensify the family planning programme in order to bring down the rate of population growth. How the planners will pursue this objective within the present resource constraint remains to be seen.

Again, the Planning Minister did not give any indication as to how the price-escalation that has been taking place since 1979-80 — the base year for the Sixth Plan exercises — will be taken care of, during the implementation of the plan. As Mr. Sankar Ghose, a former minister—and economist in his own right—pointed out, prices have so far risen by 38 per cent. Even assuming an inflation rate of just 10 per cent in the remaining three years of the plan, the price-rise during the 5-year period will be of the order of 60 to 70 per cent. Would it not, then, be unrealistic to assume that project costs could be contained within the financial provisions based on 1979-80 prices? Even without taking this imponderable into account, the planners expect a shortfall of over Rs. 8,000 crores in the additional resource mobilisation effort. A *Yojana Bhavan* study indicates that, as against the original target of Rs. 21,302 crores, additional resources to be mobilised will have to be more than Rs. 22,000 crores. The Planning Minister's reply to the Rajya Sabha debate skirted this all-important issue although it is obvious that a shortfall in resources is bound to cause shortfalls in the targets to be achieved.

The Planning Minister may not have failed to take note of certain riddles in the resource mobilisation exercise. There is, firstly, the problem of cutting subsidies without causing groans among the affected sections. In this matter, the planners have so far followed the line of least resistance. Secondly, there is the question of raising administered prices. Beyond a limit, this will be a self-defeating exercise since price increases in coal, steel, cement and so on will be transmitted to a wide variety of goods. Thirdly, the Government has failed to contain the growth in administrative expenditure. On the other hand, the periodic revisions in indexed dearness allowance have proved to be inflationary. Fourthly, the adoption of a tight monetary policy notwithstanding, there has been no let up in the snow-balling of black money. Lastly, there is no guarantee that the planners will be able to contain deficit financing within the figure of Rs. 5,000 crores mentioned in the plan document. Unless the planners make non-inflationary resource-mobilisation an article of faith, they will not be able to achieve the physical targets of the Sixth Plan.

In marco terms, the planners may be able to achieve the growth target of 5.2 per cent because the first year of the Plan witnessed a growth of 7 per cent and the second year may end with a growth of 4.5 per cent, bringing the average for the first two years to around 6 per cent. Given a few more bumper harvests, they will be able to achieve the 5.2 per cent target even in the face of serious shortfalls in crucial sectors. This does not however constitute the litmus test for the success of the plan. The success of the Sixth Plan will be measured in terms of (a) how many new jobs it will create in order to reduce the unemployment backlog and (b) the percentage of the people who will be lifted above the poverty line.

Focus on the Poorest

THE U.N. Conference on aid to the least developed countries, which concluded in Paris this week, did not result in the endorsement by the richer nations of any time-bound action programme to step up aid. The French were in a liberal frame of mind, but the Germans and the British were opposed to firm deadlines while signifying their readiness to increase their assistance to these countries. France's espousal of the cause of the poorest can be explained by (a) the socialist-orientation of the policies of the new Government headed by Mr. Mitterand and (b) the high concentration of least developed countries in Africa where France had most of its colonies. France has taken the initiative in urging the other members of the European Community to step up their assistance to the least developed countries to 0.15 per cent of their GNP, from the 1978 level of 0.06 per cent, the U.N. target for the Third World as a whole being 0.7 per cent.

Be that as it may, the cautious attitude of the richer nations cannot be attributed to a narrow, insular outlook, with the possible exception of the United States whose priorities are understandably suspect. The poorest nations get only 0.02 per cent of the GNP of the United States. Channeling aid to these countries is becoming difficult, what with their low literacy rate (20 per cent and below) meagre infrastructure facilities and primitive agriculture. At one time, it was fashionable among development economists to refer to them as basket cases. Pernicious theories like "triage" and "life boat" were put forward to deny them even token assistance that could be made available.

Now, one discerns a welcome change in the aid climate *vis a vis* the least developed nations. But, to some of these nations, even well-meaning aid may turn out to be a curse. For instance, food aid given indiscriminately may weaken their urge to step up food production. Change in food habits caused by the import of wheat or rice may throw a damper on the cultivation of their staple crops. This calls for a selective approach in extending assistance. What cannot be denied, however, is their worsening balance of payments caused by (1) a fall in the demand for the goods they produce and (2) the higher cost of oil imports. This is reflected in a six-fold increase in their debt burden in the seventies. Their problems are very much part of the problems facing the Third World. As such, it is only natural to expect that the debate initiated at the Paris conference will be carried to the North-South summit, scheduled to be held in Mexico next month. Furthermore, a South-South dialogue on technology transfer will be of greater help to the poorest nations since the kind of technology they need, and can afford, is often available next door.

India and her Neighbours

THERE are indications of a lessening of tension in the South Asian region. While the massive supply of U. S. arms to Pakistan remains a major irritant, Islamabad has taken care to reassure New Delhi that Pakistan has no intention to commit any hostile act. This point, which was emphasised earlier by Foreign Minister Agha Shahi, has now been reiterated by his man in New Delhi, Mr. Abdul Sattar. If, as seems likely, it is possible to evolve a *modus vivendi* for a Russian pull out from Afghanistan, the *raison d' etre* of U.S. arms shipments to Pakistan will have been removed. In Bangladesh, the anti-Indian feeling that had been whipped up under inspiration from certain outside powers at the time of the assassination of President Zia seems to have spent itself out. The visit to India of the Bangladesh Foreign Minister last week and the discussions that took place with his counterpart in this country has led to a better appreciation of each other's view point on issues like the discharge of the Ganga waters at Farakka, the status of the New Moore Island and the delineation of the land border.

CURRENT TOPICS

Setback in Food Production?

LAST week's heavy rains in many parts of north western India may help in partly retrieving what has been lost as a result of the prolonged dry spell in August-September, but it would be over-optimistic to expect another bumper harvest in 1981–82. *Kharif* rice harvest will be lower by at least a few million tonnes, inspite of the Centre's efforts to prevent a decline in production. Since the southern region, in general, has received fairly good rains, *kharif* harvest in the southern states will be of the same order as in 1980-81.

However, it is too soon to make the final tally. If the *rabi* harvest turns out to be good, foodgrains production in 1981-82 may not fall too much below that of 1980-81 when it reached 134 million tonnes. *Kharif* harvest in 1980-81 had touched an all time record level of 79.5 million tonnes. Till a few months ago, the Agriculture Minister was optimistic over reaching the *kharif* foodgrains target of 83 miliion tonnes. Even granting that this may have to be sealed down to 80 million tonnes, in view of the dry spell in August-September, and the early withdrawal of the monsoon in the northern belt, *kharif* production should still be at or around the 1980-81 level. Considering that the *rabi* harvest depends more on the moisture retained in the soil than on the rains, there should be no difficulty in raising a *rabi* crop of the same order as in 1980-81, namely about 54 million tonnes.

Even so, the food budget in 1981-82 will be a tight one since, for one thing, it may not be possible to build buffer stocks to a level of 20 million tonnes and, for another, the rice–wheat balance will have temporarily shifted in favour of the latter. The prosperity that the "green revolution" brought in its train has increased the holding capacity of the peasants. Thus, even in an year of bumper harvest, the government has not been able to procure enough for the public distribution system and for buffer stocks. This underlines the need for streamlining the purchasing strategy of the government's agencies like the Food Corporation of India.

While it can be proved that yields are scale-neutral, in actual practice, the owners of small holdings face the problem of securing adequate and timely inputs. As Dr. M. S. Swaminathan pointed out, at a recent workshop on wheat, the achievement of the 1981-82 wheat target of 40 million tonnes depends on how the government helps the farmers in getting over the input hurdle. The potential is there. And, as the member of the Planning Commission observed, Indian can even produce 100 million tonnes of wheat by 2000 A. D. provided the irrigation potential is augmented to cover 1000 million hectares by then. While such projections are quite heartening, there has been no matching effort by our planners to step up the production of pulses and oil seeds. This explains the steady fall in the production of these crops and the consequent high prices they fetch in the market.

Good News on Oil Front

EARLY this month, the Petroleum Minister, Mr. P. C. Sethi, broke the cheering news of the discovery of oil close to the Bombay High area, to the Lok Sabha. The new field, christened B-57, is located 35 km. east of Bombay High and covers an area of about 80 sq. km. On a conservative reckoning, the new field is expected to yield one million tonnes per annum which, at the prevailing crude prices, will cause a foreign exchange saving of Rs. 234 crores. Since it will take at least two years before B-57 starts yielding oil in commercial quantities, its favourable impact on indigenous production can be expected only by the middle of 1983. The new discovery, coupled with the measures already taken by ONGC to step up oil production in Bombay High and associated areas, has encouraged the Petroleum Ministry to revise the Sixth Plan projection from 21.3 million tonnes to around 30 million tonnes.

In the Bombay High area itself, production is proposed to be stepped up from the present level of about 8 million tonnes to 13.2 million tonnes. Development of other areas, namely, North Bassein, Heera, Ratnagiri, and now B-57, should result in the offshore production going up to 20 million tonnes, if not more. Considering that ONGC is conducting exploratory drilling in many on-shore areas, particularly in Gujarat and in the North-Eastern states, it should be possible to reach the revised target of 30 million tonnes now proposed by the Petroleum Ministry. This hinges on (a) the extent to which the French firm, CFP, can assist in the modernisation of Bombay High and associated fields and the introduction of secondary recovery techniques under the new $50 million agreement and (b) the size of the World Bank's assistance that India will be able to secure for offshore oil development. However, money should not be a major hurdle. The outlay planned by ONGC, amounting to Rs. 4,788 crores. will be augmented substantially by the recent increase in domestic crude prices.

With demand projected to go up to 42 million tonnes by 1984-85 and domestic production estimated at 30 million tonnes, under the revised programme, the country will still be importing 12 million tonnes annually at the end of the Sixth Plan. This is lower than the present level of crude imports by some 3 million tonnes. The outlook beyond the Sixth Plan hinges almost wholly on how far the foreign oil companies can be coaxed into taking up the exploration work in other promising areas like Godavari basin, The Andamans and, possibly, in the Cauvery basin. So far, the response of the firms short-listed for serious negotiations over exploration work in the 32 blocks demarcrated for the purpose has been luke-warm. If the stalemate continues, India may have to close its options and go ahead with the task through its own agencies — ONGC and Oil India — and possibly under Soviet or Rumanian collaboration.

Sugar Prices: Some Respite

SUGAR prices, which had zoomed to well over Rs. 900 per quintal in April, have come down to Rs. 500 — even less in some markets. The fall in prices is due to (a) the imminence of the arrival of imported sugar amounting to 1.75 lakh tonnes and (b) the expectation of a bumper crop in 1981-82. Sugar production, which touched a low level of 38.30 lakh tonnes in 1979-80, improved to 52 lakh tonnes in 1980-81 and is expected to reach a record level of 65 lakh tonnes in 1981-82. This estimate is based on the bumper cane crop which may reach a record level of 182 million tonnes this year.

The supply position this year should be comfortable. With a likely carry over stock of 8 lakh tonnes and the balance of imported sugar amounting to some 1.5 lakh tonnes, the quantity available should be around 74.5 lakh tonnes against a likely internal offtake of 56 lakh tonnes. Ideally, this is the time when the Government can consider abolishing the dual pricing policy since complete decontrol of sugar will cause a decline in prices. But it so happens that whenever decontrol is attempted, politicians interfere in the free play of market forces, causing a withholding of supplies. Therefore, the Government's reluctance to scrap the dual pricing policy is understandable.

French Connection: A New Chapter

THERE is evidence of visible improvement in Indo-French relations since the election of the socialist leader, Mr. Mitterand to the Presidency. The left-of-the-centre policies of Mr. Mitterand broadly agrees with Mrs. Gandhi's political credo. Even under the Giscard presidency, Indo-French relations were quite good, as is evident from the agreements concluded during his visit to India in January last year. Exchange of goods has not been of a high order — in 1979-80, India exported Rs. 179 crores worth of goods to France while importing Rs. 188 crores worth of goods from that country—but cooperation in other areas has been very encouraging. This is expected to improve further as a result of the recent visit of the French Foreign Minister, Mr. Claude Cheysson, to India.

Of immediate interest, in the area of defence, is the proposal to supply Mirage-2000 and to manufacture the aircraft under licence later, in India, Needless to say, if the Mirage-2000 project materialises, it will cause a set back to the Jaguar deal — at any rate, the optional part of it — concluded with Britain. To the criticism that it is a case of swapping horses mid-stream, New Delhi's answer is that it is warranted by the supply of F-16s to Pakistan by the Americans. Since Jaguar is of an earlier vintage, there will be no objection to the acquisition of more modern air craft, as dictated by strategic considerations—a case of keeping up with the Joneses. It is not as if the entire thing is wrapped up for delivery; an Indian military mission will visit Paris next month to examine the proposal from close quarters. India's shopping list will not be confiined to Mirage-2000s alone but one cannot make a conjecture on what other military hardware India is going to purchase from France. Defence purchases apart, one of the possibilities is for India to sound France for the supply of nuclear fuel for the Tarapur station in view of the uncertainty over American supplies.

In the area of economic cooperation, the Rs. 1000 crore aluminium project in Paradeep, Orissa, is taking shape according to the agreement signed in January last year. Other projects, taken up under protocols signed last year, like technical assistance for the construction of the Rajasthan Canal and the modernisation of coal mines can be expected to be completed on schedule. The scope for further cooperation in the economic field will be explored when an official team headed by the Foreign Secretary, Mr. R. D. Sathe, visits Paris in October. Since the Prime Minister, Mrs. Gandhi, will be paying an official visit to France in November, some of the deals worked out during the preliminary visits of our military and economic experts will be probably held up for formal agreements during the Prime Minister's visit.

The Parallel Government of A. R. Antulay

By **K. N. S.**

THE Maharashtra Chief Minister, Mr. Abdul Rahman Antulay's manner of the handling of private funds for what are claimed to be public causes has evoked sharp comments in the press. That not a single word has been said in support of the Chief Minister's actions by itself constitutes a damning indictment. I do not wish to cover the familiar ground—the impropriety of using the Prime Minister's name, the abuse, by Mr. Antulay, of his powers as Chief Minister to collect funds from persons and institutions who would not otherwise have parted with such large sums of money and the dubious nature of the objectives written into the deeds of the trusts which he has created and so on.

Charity to Whom?

I propose to focus on just one aspect which strikes me as very odd, namely, the setting up of the so-called charitable trusts by a person who heads the State Government for collecting funds and the use of these funds for various purposes which are intended, at least on paper, to help the poor and the deserving. Before getting on with my brief analysis, I may make just one point. Corruption remains a familiar feature of our political system but it was confined, in the past, to (a) the fund raising activities of the ruling party's stalwarts and (b) ministers and officials taking their cut under several guises to enrich themselves. Mr. Antulay's money-raising activities belong to a different — and, I may odd, more pernicious — *genre*.

Even here, I may say that the device of creating trusts to cheat the Government of the income tax due to it, is not new in this country. The difference, in the case of Mr. Antulay's ventures, lies in their linkage with the Government, in the vastness of their coverage and in the ambitious targets set for the collection of funds. And the difference, again, lies in the fact that Mr. Antulay's actions pertaining to the raising of funds for the seven trusts of which he remains the chairman cannot be defined as bribe-taking although their effect on the economy is more pernicious than bribe-taking. When the issue was raised in the two houses of Parliament, the Finance Minister scored a few cheap debating points by skillfully skirting the main issue.

Parallel Effort

And the main issue, which needs to be debated in the public is the desirability or otherwise of raising huge funds — Mr. Antulay's target was, according to Mr. Arun Shourie's reckoning, Rs. 125 crores — through a parallel effort for the objectives which overlap those of the Government. Politically, the person who raises funds of this magnitude for activities outside the ambit of the Government but through the Governmental machinery will be creating a power centre for himself. Since access to such large amounts of money confers on the person who uses it immense power of patronage, this power can be used to pressurise one's opponents within the party into following a particular line. Needless to say, this kind of activity weakens intra-party democracy. In this unequal game, the leader with access to sizable funds will be at an unfair advantage *vis a vis* those who may have good instincts but are not well supported financially.

That some good will come out of even the most questionable type of activity cannot be denied. The trusts that Mr. Antulay has set up may benefit the people of his town, his constituency and the region from where he hails. Again, the Indira Gandhi Pratibha Pratishthan which was expected to start its activities with a corpus of Rs. 5 crores, may help a few stray individuals here and there. But the main, unwritten purpose, as I said a moment earlier, is for the politician concerned to build and widen his base through the use of money power. More Indian politicians had tried to widen their power base but not through the mechanism of public trusts, as Mr. Antulay had set out to do. I have no hesitation in naming them.

Access to Big Money

It is not denied that Mrs. Gandhi had, and continues to have, access to big money; Mr. Charan Singh's admirers collected close to Rs. one crore through the Kisan rallies; Mr. Morarji Desai's son, Kanti Desai, did the dirty work for his father — presumably without the father knowing all about it. At the state level, Mr. Devaraj Urs, in Karnataka, never suffered from a dearth of resources. Indeed when the going was good, he went out of the way to help the central leadership with funds. In the neighbouring Andhra Pradesh, Dr. Chenna Reddy enjoyed being garlanded with currency notes and weighed against coins but his Midas touch did not carry him far. Further down south, small timers like Mr. Karunanidhi did not think much of getting a cut through the familiar device of inflating the billing for the goods supplied or service rendered to the government by businessmen. In Kerala, the leading lights of the ruling left front may have made a neat pile by manipulating inter-state sale of alcohol.

Mr. Antulay perpetuates this tradition of political corruption — but with a vital difference. By seeking to raise large amounts of money through implied threats, mostly on a *quid pro quo* basis, he seems to be making nonsense of the Govern-

(Contd. on next page)

A. R. Antulay (Continued)

ment's anti-inflation policy. Take the Indira Gandhi Pratibha Pratishtban* — the most controversial but by no means the most ambitious of Mr. Anthulay's trusts. He has been able to collect well over Rs. 5 crores for the trust, with the State Government contributing Rs. 2 crores and the rest being coughed up by sugar cooperatives, private sector mills, distilleries, builders and others. To the extent that the collection of funds is based on a system of levy — so much on a tonne of sugar produced, so much on a tonne of cement and so much on a litre of alcohol etc. — the price of the product in the market (white, black or grey) goes up.

Consumer Exploitation

Once the Chief Minister starts collecting funds in this manner, he automatically surrenders his moral authority to pontificate on holding the price line. He will automatically become a partner in their profiteering activity. Consumer exploitation will get a special fillip, with cement dealers charging more for the cement they sell (its black market rate, one hears, has gone up by Rs. 40 a tonne as a result of Mr. Anthulay's fund collection), producers of alcohol making up for their loss (of Rs. 2 per litre) by adding it to the selling price and the sugar mills doing more or less the same thing. This is commodity taxation, pure and simple. Take the fig leaf of public purpose away, and one can see it in all its ugly nakedness. This kind of fund collection, with an element of coercion attached to it, works in a regressive fashion. By making the scarce commodities scarcer, it prevents the poor from buying at prices they can afford while enabling the rich to buy them at prices dictated by the black market.

Mr. Antulay's fund raising operations need to be condemned strongly because it seeks to run a parallel system — apart from the Government of which he is the chief executive—thereby weaking the goals of the Government. Despite the lofty goals claimed for these trusts, they are not calculated to helping the poor and the deserving. Any chief minister having no over-riding political ambitions will concede that the right way of bringing the benefits of good government to the people — the poorer sections, in particular — is to carry out measures of reform within the frame-work of the Government.

Devil's Advocate

What saddens one is the fact that in this country, we have a Finance Minister who sees nothing wrong in Mr. Antulay's fund-raising drive. Mr. Venkataraman's keeness to tighten income tax collections is sharply at variance with the stand he has taken on the propriety of allowing income tax deductions from the funds raised by Mr. Antulay. His claim that he has mounted a frontal assault on inflation sounds hollow in the face of his permissive stance *vis a vis* Mr. Antulay's extortions through an unofficial system of levy on scarce commodities.

I attach the greatest importance to the Antulay affair not because the Chief Minister of Maharashtra is more corrupt than his contemporaries (frankly, he is not) but because it gives an indication of the imminence of the collapse of our democratic system. It represents the beginning and, hopefully, the end of a phase in the evolution of our political system. The beginning of a new phase can be either through a radical change in the mores and methods of the party in power or through a violent upheaval. Much depends on the manner in which the Prime Minister, who also happens to be the unchallenged leader of the Congress Party, chooses to deal with Mr. Antulay and his ilk. The most logical thing for her to do is to dismiss Mr. Antulay from the post of Chief Minister and ask him to wind up all the seven trusts which he has set up in the past two years.

Mrs. Gandhi's Options

This is not an easy task, even for a powerful, charismatic leader like Mrs. Gandhi. The simple truth is that she herself is privy to the political vices of which one accuses Mr. Antulay, Mr. Gundu Rao, Mr. Anjiah and others. The *modus vivendi* differs from person to person but the broad approach remains the same. The approach is characterised by a pathological preoccupation with money in all its myriad hues — white, black, grey and what have you. She can either make a clean break with the system and start with a clean slate or continue with the present system which subsists on corruption. What is at stake is Mrs. Gandhi's credibility.

Her initial response to the outcry against Mr. Antulay's antics was to ask Mr. Venkataraman to put up a defence. He no doubt put his debating skills to good use but his defence sounded hollow in the face of stark realities. As opposition to Mr. Antulay mounts in his own home state — Mrs. Shalinitai Patil is already at it — Mrs. Gandhi will find it more and more difficult to let him continue as Chief Minister. Stubbornness is not a very endearing trait in politics and if Mrs. Gandhi decides to throw her undoubted weight in his favour, she will be causing disenchantment among her own shrinking circle of close supporters. With my knowledge of how the "total revolution" of 1974 fizzled out after a brief period of initial success, I do not hold the simplistic view that 1981 will witness a repetition of 1974-75. The truth is, the people are as disillusioned with Mrs. Gandhi and her party as they with the opposition parties.

---

* Now the Trust does not bear the Prime Minister's name.

Glass House Gossip

I am glad I am being overtaken by events. I wrote a lengthy piece on Mr. Antulay's fund-raising activities and their political and economic implications for this issue, not knowing that before the formes are put together, the Maharashtra Chief Minister would make an inglorious exit. (See pages 5 and 6). I have absolutely no regret over retaining the Antulay piece although it is rendered stale by his offer of resignation.

Who knows, by the time these lines are seen in print, Mantralaya will have a new occupant. Mr. Antulay's reply to the debate in the Maharashtra Assemply reveals a streak of obstinacy in his mental make-up. He has not conceded that he has erred in raising funds for his various trusts through questionable means; he has only admitted, probably as an afterthought, that he should not have brought in the name of Mrs. Gandhi, in spite of her reported desire not to be associated with these trusts. Since the issue is already before the two houses of Porliament, in the shape of privilege motions, I do not think Mr. Antulay's resignation, by itself, will put the lid on the sordid affair which has all the makings of a mini-Watergate.

For one thing, with the Maharashtra Chief Minister's outster, the speaker of the Lok Sabha will be hard put to defend his decision on the motion against the Finance Minister, Mr. R. Venkataraman, who saw nothing wrong in Mr. Antulay's actions. If, as Mr. Venkataraman's asserted, the Chief Minister has committed no impropriety, there was no need for him to resign, or for Mrs. Gandhi to ask for his resignation. The crux of the matter, so far as Parliament is concerned just now, is whether Mr. Venkataraman has misled the house, deliberately or otherwise. With more evidence surfacing about one of the trusts bearing Mrs. Gandhi's name — the Indira Gandhi Pratibha Pratishthan — the Lok Sabha speaker will be hard put to accept Mr. Venkataraman's defence.

Mr. Antulay himself has admitted that he had named the trust after her despite her opposition to it. This may well be an after thought when one considers that the Prime Minister had, in fact, given her "blessings", as the tell-tale picture released by the State Government to the press reveals. For the purpose of considering the privilege issue, it is immaterial whether the Pratishthan was formally inaugurated on October 11, 1980 or earlier. If it can be established, as Mr. Arun Shourie almost proved to the hilt, in *Indian Express*, that the Trust bore her name for some time—it was struck off only on August 30, 1981— then neither the speaker nor the members of Parliament can escape the conclusion that the Finance Minister misled the house. Whether he will escape a reprimand depends on the interpretation that Speaker Jakhar will give to Mr. Venkataraman's statement. Could it be construed that since there was no attempt at wilfully misleading the house, the Finance Minister did nothing to encroach on the privilege of the house?

Mrs. Gandhi's own credibility hinges on (a) how consistent Mr. Venkataraman will be in standing by his first statement and (b) the extent to which Mr. Antulay can keep his leader out of the realm of controversy. A plausible line of argument, for Mrs. Gandhi, is that, at the time of her giving the "blessings" to the Trust, she did not anticipate the *modus vivendi* that Mr. Antulay would adopt to raise funds for the Trust named after her. In the normal course, Mr. Antulay would have been rewarded with an ambassadorial position somewhere the Middle East for the role of the sacrificial goat he played in the entire drama. But his fund-collection drive is so full of irregularities that Mrs. Gandhi will find it difficult to put Mr. Antulay in any responsible position.

* * *

THE way Iranians are exterminating one another leaves me in no doubt that if the grisly thing continues for another month or two, the country's population will have thinned down considerably. Between shedding one's blood and shedding one's prejudices, I always prefer the latter but so long as Ayatollah Khomeini continues to ride high, reason will always remain at a discount in that unforturate land. The innocent Iranians shot down by Khomeini's firing squad far outnumber those who have been killed by the opposition, Mujahedeen Khalq, but this should not give any comfort to the clerics whose ranks are thinned down by the recent bombing outrages. First it was Ayatollah Beheshti who, along with sixty or seventy other faithfuls, perished in a bombing outrage at the IRP headquarters. Then came the massacre of the new President, Ali Rajai and the new Prime Minister, Mohammed Banohar. They were killed in an explosion on August 30. Six days later, on September 5, the prosecutor of Khomeini's Government, Hojatoleslam Ali Quodussi was killed in a fire bomb explosion which ripped through his offices. And on September 11, another henchman of Khomeini, Ayatollah Madani, was killed in a grenade attack.

15 SEP 1981

Not surprisingly, this has caused some rejoicing in the camp of exiles in Paris and the Mujahedeen's leader, Massond Rajavi went to the extent of proclaiming: "Khomeini is finished; he is on his way out". While I am inclined to share Rajavi's assessment of the situation in Iran, I do not think the fall of Khomeini is imminent. He still enjoys the support of the majority in Iran and the appeal of Islamic fundamentalism will take time to wear off. Khomeini is a fanatic. And fanatics are generally irrational. With a man like that at the helm, I do not think the killings will end soon. There will be more executions and more assassinations until the Ayatollahs are left with no one to run the Government and the people get so much fed up of lawlessness that they gladly consider an army takeover as great deliverance.

* * *

THE Neoresque posture that some of our Ministers adopt takes my breath away. The other day, our Finance Minister, Mr. R. Venkataraman, asserted, without batting an eye-lid, that he never promised to bring down prices. Could it be that bringing down the rate of inflation is different from bringing down prices? May be, I am too simple-minded to understand the semantic difference between the two. Even then, it requires a lot of gumption, for a Finance Minister in charge of the economic policy-making of a country facing double digit inflation to say, in effect, that bringing down prices is none of his concern. Such statements, I am afraid, are sure to provoke the harrassed housewives to come out with their rolling pins.

Again, take the bland assertion of the Railway Minister, Mr. Kedar Pandey, that there is no need for a judicial inquiry into the Tamil Nadu Express accident of August 31 which resulted in a large — and as yet unspecified — number of casualties. I do not expect all the Railway Ministers to come up to the moral standards of Lal Bahadur Shastri—he owned moral responsibility to an accident and resigned as Railway Minister —but they should at least observe the minimum courtesies expected of them: prompt visit to the accident site, arranging for emergency relief to the injured, sanctioning of compensation to the relatives of the dead and so on. But when the Tamil Nadu Express met with an accident on August 31, near Sirpur Kagaznagar, Mr. Pandey was addressing a "safety seminar" at Hardwar, pontificating on the need to inculcate discipline among the staff, to seek public cooperation and so on.

Even while giving out the casuality figures, the Railway bureaucracy seems to adopt stone-walling tactics. For instance, the figure of 16 for the number who died in the Tamil Nadu Express disaster is sharply at variance with several eye-witness accounts which mention figures which are three to four times this mumber. This kind of thing happened during the head count of the dead in the Baghmti disaster. While the official figures placed the number at 270, the reports which appeared in newspapers gave a higher figure. As one newspaper commented, our trains are becoming "unsafe at any speed". If they are unsafe at speeds allowed for ordinary mail and express trains, they can be deemed to be more so in the case of super fast trains. Human error is one aspect of the problem that needs to be looked into but the question of renewing worn out tracks also deserves special attention. For the average traveller in India, there is not much of a choice. Travel by plane—which very few can afford —is no less hazardous and bus travel is no less risky when one considers the state of the vehicles, the condition of our roads and the road sense of the drivers.

* * *

Indo-U.S. relations which were not free from blemishes even in the best of times, seem to have touched a new low with New Delhi's refusal to allow the U. S. embassy appointee, Mr. George Griffin, to function in India. Washington has retaliated by not letting the Indian embassy official, Mr. T. Prabhakara Menon, function there. Relations were already strained as a result of the refusal of the Reagan Administration to continue the supply of reactor fuel to the Tarapur nuclear station and the reported supply of F-16 planes to Pakistan. The World Bank's refusal to grant a loan to the Thal Vaishet project also had something to do with the deteriorating Indo-U.S. relations. The bone of contention here was India's rejection of the bid of a U.S. firm to participate in building the fertiliser project.

India's stand on the Griffin posting needs to be viewed in the light of the widely known fact that many embassies, including the embassies of U S.S.R., practice information-gathering in the host country. And only a thin line divides between information-gathering in the normal course—cocktail rounds, pumping out information from journalists who have access to top officials and Ministers and so on—and spying for one's country. With Mr. Griffin's alleged CIA connections and the role he played during the Bangladesh War—he was American consul at Calcutta at that time—India had enough justification in objecting to his appointment but Washington's action in stalling Mr. Menon's appointment—a case of tit-for-tat —represents the kind of knee-jerk reaction which a mature country of American's standing could well have avoided.

— Plebeian

special articles

Muddled Thinking on Backwardness: Need for New Approach

By **K. K. Upadhyaya** *

The bane of Indian economists — at any rate the majority of them — has been that they develop their analyses on the basis of theories borrowed from economists abroad. Much of what they have written has little relevance to the backwardness of a country like India. In this article, Dr. Upadhyaya debunks some of the popularly-held notions about backwardness and underscores the need for new thinking based on a realistic appreciation of the situation obtaining in the country.

MECHANISTIC formulations of growth process, whether of neo-classical, Keynesian or post-Keynesian variety, are patently inadequate for understanding, much less for sorting out, problems of arrested development in backward societies like India. Moreover, even the received doctrine is not being properly imbibed in the current theorizing by the profession here. And, more importantly, very few attempts are being made to rebuild the theory.

In the backdrop of this poverty of theory the most useful line has been of economists who would take into account all inconvenient institutional variables and throw up answers to the really relevant questions. But a major part of current research in this area is inadequate in as much as it fails to incorporate the institutional framework. As it is, the social and governmental frame is the real constraint to growth, not capital and also not technology. The factors averting India's development are not mysterious. They have been repeatedly identified. Only there is nobody to bell the cat.

This is an attempt to compose a credible story of backwardness of a very backward country which is India. A lot has been written both on the (1) mechanical interaction of very neat variables like savings ratios, autonomous investment, additional tax effort, money, foreign trade and a host of other multipliers and related functions and (2) the socio-institutional factors for explaining away the cause of averted growth. I am more apprehensive of the second group of suspects at least at the present juncture and I try to investigate on their record only.

The sources of confusion among economists are three: One "Myrdalian" biases and value-judgments which have eclipsed harmless-looking Welfare Economics even after its emancipation by N. Kaldor and J. Hicks. So much so that the harmless term "backwardness" was taboo by early 1950s and PT Bauer's "pauperism" has been looked with considerable contempt. Thus even "undevelopment" is preferred and there is supposed to be an "economics of undevelopment" although ''economics of development'' was enough. But this love for new terms emanates from the second source which is the instinct of economists to form the ''eight opinions'' in accordance with the curse of Mrs. Joan Robinson.

Apart from getting them reputation jargon-mongering lands them jobs and other mundane things. The third source which perhaps encompasses the first two, is sheer incompetence, dishonesty and cowardice on the part of the profession so that is not considered decent to take skeletons out of Establishment's cupboard and it is very paying to call a spade a silver spoon. It is the morbid fear of opposing Galbraith's ''conventional wisdom'' that forces many of us to concoct make-believe stories.[1] Frontal attacks on ruling party's policies or use of epithets like feudal or corrupt for a government may land one in a soup at a time when a "visiting Professorship'' could be bagged.

Inspite of the warning of Gunnar Myrdal in the 1950's that growth and trade theory has to be recast if it is to fit developing economies past three decades of theorizing in India is essentially a rehash of the received theory. Gautam Mathur[2] worked very loyally with the growth tools of Mrs. Robinson and Vikas Mishra's[3] Growth Multiplier is a routine acrobatics much more insipid than the "take-off theory'' of Rostow which tells nothing. For example, what does it mean to say that India crossed the take-off stage in 1963? I should like to think that 1977 is a better divide in that a certain degree of maturity in balance of payments (as a result of remarkable diversification and spatial relocation in exports and some success in import substitution) had been attained.[4] Again C. T. Kurien[5] has done some tinkering with the socio-economic dynamics of a traditional society but it does not appear to have clicked.

It has become customary to begin any treatment of growth-problem with Harrod-Domar and in some cases to even end with it. Now Harrod-Domar model has never been relevant to Indian situation and luckily for several teachers of growth economics it is still a four-page note that they retrieved long back and have been passing on to successive batches of trained economists. W. A. Lewis' dichotomy which ultimately ended into neo-classical dualistic scheme has given some insight into the simultaneous existence of a modern and traditional sector and the rigidities that are to be faced in removing the gap between them. But the model lets slip away more than what it captures. The works of P. R Brahmananda, A K. Sen, T. N. Srinsvasan, J. Bhagwati, P. Bardhan, A. K. Bagchi, are, however, in a class by themselves and one finds in them many strands of a new and credible story.

---

* Dr. K. K. Upadhyaya is Lecturer in Economics, Kisan (P. G.) College, Basti, U.P.-272 001.

But the way the majority of the profession has dealt with the tangle of poverty, unemployment, inflation, and balance of payments deficit has been far from encouraging. A typical treatment would begin with the sprinkling of a stale, perhaps mathematized version of received (not the domestically adopted variant of it) theory, describe the institutional set up with the reserve of a committed civil servant, show the results of some regressions (may be between the s and q of wheat and gram at Hapur a decade back) and come out with a conclusion in such a way that when one problem is solved another is promptly created. An inter-disciplinary approach is preferred since it has become the "in thing" first abroad, then here, but an approach involving the knowledge of interaction of fiscal, monetary and administrative policies does not find favour. Accordingly, we have about one institution in each State housing Anthropologists, Psychologists, Statisticians, Economists and, of course, Socialogists with more backward States like Bihar and U. P. having two and Punjab and Haryana having none. An inclusive approach with wide terms of reference long practiced at Bombay, Calcutta, Allahabad and Madras has no promoters.

In result, while we get cyclostyled, cursory proceedings of the inter-disciplinary institutes liberally funded by State Planning Boards and others, on the other hand, there are post-doctorate theses on agro industries, regional development, multipliers and export promotion which are not for public consumption — only examiners have seen them. Then there is a plethora of work on agrarian problem, labour relations, economic philosophy of Gandhi and Nehru, local finance which involve only a few months of clerical work. If only a few persons were responsible for this class of activity they might hang their heads in shame, but the responsibility is so widely shared that the morale is not affected.

As I have shown elsewhere,[7] India has attained some maturity in respect of balance of payments at the base of which has been the remarkable improvement in infrastructure and heavy industry as a result of the success of Mahalanobis strategy. If there is still considerable backwardness and the World Bank's *per capita* income's rating takes it to the bottom ten position while the size of industrial output is tenth largest, it is because of half-hearted implementation of Mahalanobis strategy and the rampant mismanagement of the economy. If the BOP has got into bad shape after having a sea-change by 1976-77 which was policy-induced and not furtuitous[8] if now the deficit is going to cross Rs. 4,000 crores or a huge purchase of currency from IMF is under way, the economic policy again is to blame.

It is what P. T. Bauer calls ''pauperism'' which is at work in the phenomena of sugar and cement being imported instead of being exported. The production of enough edible oil and even enough of animal protein and fat is within India's technological capacity. What is the economist to do if the staff of primary schools and homeopathic dispensaries does not find it necessary to go to work after successfully lobbying for hikes in salaries. If a rig crew takes more than two months to drill an ordinary well, a government bus is left abandoned on road for a week, or it is burnt by students to press for increase in seats we do not need foreign capital or tecnnology to solve the problem. The wastage in our higher education has been sufficiently documented. D. M. Nunjundappa has worked out the subsidy involved in it and we know what class benefits from it?[9] Long back, E. J. Mishan and others suggested the students should themselves bear a large part of the costs.

In their Presidential Addresses to Indian Economic Association on this side of 1973 V. M. Dandekar, P. R. Brahmananda, G. Mathur and P. D. Hajela have given very credible stories of backwardness and their suggestions would make an effective administrative monetary-fiscal policy frame. If the Government has little use for such considered opinion and the institutes and universities are filing for themselves typescripts and mimeographs of the type indicated above, what is the profession as such to do? If the society is happy with unhygienically prepared food packed in pages from school-boys' exercise books and polluted water, if towns do not need open space, spacious roads and sewers and if the labour is determined to be on partial strike all the time, where is the need for a 5.2 per cent rate of growth?

There are the travellers without transport, students without teachers and host of people waiting for justice in courts but the magistrate will not sit; this is not a growth problem, May be, the tax ratio is, in effect, half of what it is supposed to be and the savings ratio is officially under cloud. The relevance of H. Leibenstein's "critical minimum effort'' is over and it is opportune that he is now working with his new tools of "X-efficiency" and "Micro-Micro Economics."

NOTES AND REFERENCES

1. Thus for A. P. Ghosh, my story would not be economics considering what he told me in an interview for a faculty position in Nainital on April 18, 1981.

2. Planning for Growth, London, Oxford University Press, 1965.

3. The Growth Multiplier and a General Theory of Growth, Bombay, Asia Publishing House, 1961.

4. K. K. Upadhyaya, Import Financing in India, Allahabad, Chugh Publications, 1979.

5. A Theoretical Approach to the Indian Economy, Bombay, Asia Publishing House, 1970.

6. This refers to several works which need not be cited.

7. See footnote 4.

8. Ibid.

9. D. M. Nunjundappa, ''System of Grants is not Equitable''. The *Economic Times*, June 24-25, 1975.

Economic Costs of the Fertiliser Policy in India

By **P. Leela** *

A remarkable development in Indian agriculture during the last three decades has been the rapid strides that the country has taken in the use of fertilisers. In fact, India has emerged as the fourth major producer and consumer of fertilisers in the World. The sharp rise in the price of petroleum now necessitates a revision of the feedstock policy as well as pricing policy for fertilisers. In view of the emerging the fertiliser gap, the author pleads for more expeditious completion of new fertiliser projects, better capacity utilisation in the existing plants and greater use of organic manure.

FERTILISERS play an important role in the Indian economy in increasing agricultural production. Fertilisers also represent the most vital link between agricultural development and industrial growth. In the past three decades, fertiliser industry in India has made rapid strides, as shown in table-1. Total fertiliser production in the country increased from a mere 38,700 tonnes in 1951-52 to 3.02 million tonnes in 1978-79. During the same period, total consumption of fertilisers increased from 65,600 tonnes to 5.3 million tonnes. As a result of this rapid growth, India today stands as the fourth major producer and consumer of fertilisers (in terms of the major nutrient, namely nitrogen) in the international markets, next only to U. S. A., U. S. S. R., and China.

In terms of the Industries (Development and Regulation) Act of 1951, the primary responsibility for developing the industry lies with the Government. In this paper, the policy of the Government towards the Industry is examined under the three broad headings viz., the distribution policy, feedstock policy and the price policy, with a view to assess the economic costs of the various controls on the Industry to the economy.

The policy of the Government in respect of fertilisers is basically linked up with its policy of promoting the agricultural sector of the economy. As far back as in 1893, the active role to be played by the Government in respect of manures and fertilisers along with the other inputs in the promotion of agricultural production was emphasised by John Augustus Voelcker.[1] The first major change in the evolution of the policy of the Government towards the fertiliser industry took place on the eve of Independence, when the function of promoting the use of fertilisers shifted from the market to the Government and an institutional framework came into existence to augment supplies as well as to control its distribution throughout the country.[2] Further, during the First Five Year Plan, fertilisers were considered as only a supplement to organic manures. But from the Second Plan onwards, fertilisers have been given a more prominent place in increasing agricultural production and in meeting the food production targets.

Prior to Independence, the important agency concerned with the distribution of fertilisers in the country was the Central Fertiliser Pool. Established by the Government in 1943, the Pool was mainly entrusted with the distribution of nitrogenous fertilisers. Import requirements of the country were assessed from the total requirements and the domestic production of fertilisers. The actual imports, finally obtained on the basis of foreign exchange allocations were pooled with domestic production. The total thus obtained was then distributed to the various State governments and other users on the basis of their estimated requirements and other criteria.

TABLE—1

PRODUCTION AND CONSUMPTION OF FERTILISERS

('000 tonnes)

Year	Production ($N + P_2O_5$)	Consumption ($N + P_2O_5 + K_2O$)
1951-52	38.7	65.6
1955-56	89.2	130.8
1960-61	165.7	239.9
1965-66	356.7	784,6
1970-71	1060.6	2256.0
1975-76	1827.7	2893.7
1976-77	2387.8	3411.0
1977-78	2706.9	4285.8
1978-79	2997.9	5116.9
1979-80	3019.5	5255.8@

@ Provisional.

Source ; F. A. I., Fertiliser Statistics 1979-80.

In 1957, fertilisers were brought under the Essential Commodities Act and the Fertiliser Control Order was brought into force from 1957, to deal with the regulation of production, distribution, sale, prices and quality control of fertilisers. Since 1957, the order has been amended several times to take account of the changing requirements of the Industry. In 1972, to meet the shortages in supply and ensure equitable distribution of fertilisers in the country, the Government issued a notification requiring the manufacturers to meet the state-wise distribution arrangements. Restrictions were also placed on the inter-state movement of fertilisers.

At present, the MMTC makes the purchases of imported fertilisers in the international markets on behalf of the Government. The imported fertilisers together with the domestic production are then distributed state-wise through the State Governments and the manufacturers. Distribution of fertilisers in the economy thus continues to be controlled by the Government under the Essential Commodities Act.

---

* Dr. P Leela is Reader in Economics, Dept. of Cooperation & Applied Economics, Andhra University, Waltair.

The production of nitrogenous fertilisers in the country is based on a wide variety of feedstocks. Depending on the availability of the feedstocks, the developments that took place in the fertiliser technology and the policy of the Government in the choice of the feedstock to be used, firewood, coke, coke oven gas, refinery gas, lignite, power, naphtha, fuel oil, natural gas and coal have been used as feedstocks at different points of time. Some of these feedstocks like coke oven gas, lignite and fuel oil involve complex and difficult production technologies, besides the problems connected with the quality and availability of the feedstocks.

A number of modifications in the form of modernisation, rationalisation, debottlenecking and changes in the feedstocks and consequent changes in the production processes are being carried out for several of the firms in order to make them, upto-date and to improve their operational efficiency. Further the feedstock policy has also been revised in view of the commercial discovery of oil and natural gas reserves at offshore Bombay High and Bassein in the Arabian Sea. Natural gas is to be the preferred feedstock while coal is also to be considered in view of its availability.

The most important factor influencing the use and consumption of fertilisers is the input-output price relationship to the farmer. The Policy of the Government with respect to the prices of fertilisers as well as prices of foodgrains therefore becomes important. The Central Fertiliser Pool established in 1943 was required not only to control the distribution of fertilisers, but also to control the prices of fertilisers. The prices of imported and domestic fertilisers were to be equalised and fixed on a 'no-profit-no-loss' basis, uniformly throughout the country for the farmers, at a reasonable level. However, the Sivaraman Committee which examined the working of the Central Fertiliser Pool found that the Pool was making huge profits. The Committee therefore, suggested several changes in the distribution, pricing and other policies of the Government towards the Industry, as a result of which there was some liberalisation in the policy of the Government.

The period 1969 to 1974 witnessed stability in the statutorily controlled prices of fertilisers. However, the oil crisis in 1974 led to a steep rise in the fertiliser prices affecting the consumption of fertilisers adversely. In order to increase the total profitability of the Industry and to attract fresh investments into the Industry, a new price policy for fertilisers, based on the recommendations of the Marathe Committee, was brought into operation with effect from November 1, 1977.[3] However, criticisms against the formula led to a new retention price formula worked out by the Fertiliser Industry Coordination Committee and was accepted by the Government in August 1980.[4]

On June 8, 1980, the prices of all fertilisers, except those of SSP, Ammonium Sulphate and Calcium Ammonium Nitrate were revised upwards, because of a steep rise in the prices of petroleum products and in the international prices of fertilisers. With effect from July 11, 1981 again, the Government has decided to increase the prices of fertilisers.

It is thus evident that there are controls in various forms over the production and prices of fertilisers. Such controls impose some costs on the economy. The investment policy of the Government towards the industry and the controls exercised by the Government on the use of feedstocks, on imports, distribution and pricing of fertiliser products provide a significant degree of protection to the Industry. The significantly high degree of effective protection enjoyed by the sector 'Fertilisers' is estimated by Panchamukhi to be 462 per cent.[5] The (a) production and (b) consumption costs to the economy arising from such high levels of protection are estimated by Musunuru S. Rao to be in the range of 30 per cent to 56 per cent of the value of production and 17 per cent of the value of consumption.[6] Liberalisation of the policy of the Government towards the industry would cause a reduction in such costs to the economy.

The study of economic efficiency of the nitrogenous fertiliser industry indicates that the use of natural gas feedstock using steam reforming process is efficient even at the official exchange rate.[7] The revised feedstock policy of the Government indicates a trend towards greater use of this cheap and abundant raw material found at Bombay High. However, it is highly essential that delays in the execution and commissioning of the proposed projects be minimised in order to prevent the escalation in the cost of the projects and thereby in the prices of the fertilisers to the farmers.

Though the prices of fertilisers are under statutory control, the cost of fertilisers to the farmers continues to be high necessitating subsidies on a large scale[8]. Optimum utilisation of installed capacities would enable the farmers to obtain such a vital input as fertilisers at the minimum price possible and in adequate quantities. Further, while steps should be taken to bring down the prices of fertilisers to the farmers, it is also necessary to supplement the use of chemical fertilisers by other sources of nutrients like bio-fertilisers, recycling of organic wastes etc., which further increase the effectiveness of fertiliser application in increasing agricultural productivity in the economy.

REFERENCE

1. Based on the author's Research project; Indian Fertiliser Industry ; A Study of the Performance of the Public Sector Units, 1981 (Mimeo), financed by the Waltair School of Economics, Andhra University, Waltair, under the U. G. C. Special Assistance Programme.

2. John Augustus Voelcker, *Report on the Improvement of Indian Agriculture*, London, 1893.

3. Gunvant M. Desai, *Growth of Fertiliser use in Indian Agriculture: Past Trends and Future Demand*, Cornell International Agricultural Development Bulletin, 18.

4. The policy guaranteed a 12 per cent post-tax return on net-worth basis to the fertiliser industry. Retention prices were fixed for the individual fertiliser companies based on 80 per cent capacity utilisation.

5. The new formula sought to alter the 'net worth' concept of the Marathe panel. However, the existing formula for subsidy was continued. The low cost units will have to pay to the Government their profits,

which would be used to subsidise the high-cost units.

6. See Jagdish N. Bhagwati and T. N. Srinivasan, *Foreign Trade Regimes and Economic Development: India*, Oxford & IBH Publishing Co., New Delhi, 1975, Ch. 13, Table 13-1, p. 181.

7. Musunuru S. Rao, Protection to Fertiliser Industry and its Impact on Indian Agriculture (unpublished) Ph.D. Thesis, University of Chicago, 1973. The estimates are for the period 1968-69 to 1970-71.

8. P. Leela, Import Substitution and Economic Efficiency: A Case Study of the Indian Nitrogenous Fertiliser Industry, (unpublished) Ph.D. Thesis, Andhra University, 1978.

9. The subsidy on fertilisers has been increased from Rs. 466 crores in 1980-81 to Rs. 679 crores in the budget of 1981-82.

Trends in Fertiliser Consumption and Profitability in Indian Agriculture

By **P. V. Sarma** *

The steady escalation in fertiliser prices without a commensurate increase in the prices of agricultural products has resulted in a fall in fertiliser consumption in recent years. The author fears that this trend will continue unless fertilisers are heavily subsidised. Since this has led to an impasse, the author feels the need for encouraging the use of green manure and also manure obtained from biogas plants.

FERTILISER is the king-pin of Indian Agriculture. The success of Indian agriculture is mainly due to the adoption of modern technology wherein Fertiliser plays a major role. Fertiliser consumption has increased from about 66 thousand tonnes in 1951–52 to about 399 thousand tonnes in 1961–62 and to 2,656 thousand tonnes in 1971-72 and to about 5,255 thousand tonnes in 1979–80. It is expected to grow to 6,850 thousand tonnes by 1981–82 and further to 13,900 thousand tonnes by 1989–90.

The real breakthrough in Indian fertiliser consumption commenced in 1966-67 with an increase of 316 thousand tonnes in one year inspite of very poor weather conditions. The consumption increased further by about 438 thousand tonnes in 1967–68 due to good weather conditions and increase in area under high yielding varieties by about 4.2 million hectares. The data relating to trends in fertiliser consumption and some related factors are presented in Table-1.

It can be seen from Table-1, that the increase in area under irrigation and high yielding varieties during 1968–69 to 1975-76 has no significant effect on the increase in fertiliser consumption and weather has significant effect on the rate of increase in fertiliser consumption. Besides the bad weather conditions, the increase in the price of fertilisers is a major factor in the slow increase or even decline in the consumption of fertilisers. The price spurt in 1974-75 together with very poor weather conditions has resulted in the decline in the consumption of fertilisers from about 2,839 thousand tonnes in 1973-74 to about 2,573 thousand tonnes in 1974–75. The reduction in the prices of Phosphatic and Potasic fertilisers in December, 1975 and Nitrogenous fertiliser in March, 1976 has increased the fertiliser consumption by 321 thousand tonnes in 1975–76 and further decline in the prices of fertilisers (except single Superphosphate) in February, 1977 and October, 1977 have contributed for an increase in fertiliser consumption by about 517 thousand tonnes in 1976-77 inspite of poor weather conditions.

The favourable weather conditions in 1977-78 and 1978-79 with no increase in prices of fertilisers (except single Superphosphate) have contributed for an increase in fertiliser consumption by 875 thousand tonnes in 1977-78 over 1976-77 and by 831 thousand tonnes in 1978-79 over 1977-78. The very poor weather conditions would have been responsible much for the less growth of 138 thousand tonnes in 1979-80 over 1978-79. The increase in fertiliser consumption in 1980-81 over 1979-80 is very low and may be due to increase in fertiliser prices effective from June 1980. Thus, given the irrigation and spread of high yielding varieties, the increase in fertiliser consumption depends mainly on weather conditions and the price of fertilisers. Here, one should also note that the effect of increase in prices of fertilisers will be first of all on K_2O followed by P_2O_5 and N. Hence, the consumption of single nutrient N may not be affected much but the complex fertilisers will be affected.

Given the uncertainity of the weather conditions, the above analysis indicates that the fertiliser prices play a vital role in the use of fertilisers. With mounting oil crisis, fertiliser industry is bound to be affected and fertilisers may become increasingly difficult both in terms of availability (Production + Imports) and Prices. The consumption of fertilisers depends on the present price of fertilisers and the expected price of crop output.

If and unless the farmers expect higher prices for their product, increase in fertiliser prices may adversely affect the fertiliser consumption. Unless the input/output

---

* Dr. Sarma is Reader, Department of Economics, Andhra University, Waltair.

TABLE–1
FERTILISER CONSUMPTION AND WEATHER CONDITIONS – 1961-62 TO 1980-81

Year	Fertiliser Consumption (all nutrients) ('000Tonnes)	Absolute Increase or Decrease over previous year ('000 Tonnes)	Percentage Increase or Decrease over Previous year	Weather (for purposes of Agricultural production	Gross Area under HYV Crops (in Million Hectares)	Absolute Increase or Decrease over previous year (million hectares)	Gross Irrigated Area (million hectares)	Absolute Increase over previous year (million hectares)
1962-63	452	93	33,3	Average	—	—	29.5	
1963-64	544	92	20.4	,,	—	—	29.7	0.2
1964-65	773	229	42.1	V. Good	—	—	30.7	1.0
1965-66	785	12	1.6	V. Poor	—	—	30.9	0.2
1966-67	1101	316	40.3	V. Poor	1.9	—	32.7	1.8
1967-68	1539	438	39.8	Good	6,1	4.2	33.2	0.5
1968-69	1761	222	14.4	Average	9.2	3.1	35.5	2.3
1969-70	1982	221	12.6	Good	11.4	2.2	36.9	1.4
1970-71	2256	274	13.8	V. Good	15.4	4.2	38.0	1.1
1971-72	2656	400	17.7	Average	18.2	2.8	39.4	1.4
1972-73	2768	112	4.2	V. Poor	22.1	3.9	40.8	1.4
1973-74	2839	71	2.6	Poor	26.0	3.9	42.2	1.4
1974-75	2573	- 266	9.4	V. Poor	27.0	1.0	43.6	1.4
1975-76	2894	321	12.5	Good	31.9	4.9	43.3	-1.7
1976-77	3411	517	17.9	Poor	33.6	1.7	46.9	1.6
1977-78	4286	875	25.7	Good	38.0	4.4	48.5	1.6
1978-79	5117	831	19.4	Good	41.1	3.1	52.2	3.7
1979-80	5255	138	2.7	V. Poor	35.2	- 5.9	54.3	2.1

Source: Fertiliser News, December, 1980

TABLE-2
ECONOMICS OF APPLICATION OF NITROGENOUR FERTILISERS ON PADDY AND WHEAT

Year & Date	Price of N based on Urea	Procurement Price of		Kgs of Grain required to buy 1 Kg of N		Gross Financial Return on every rupee Invested on Nutrient N	
		Paddy	Wheat	Paddy V	Wheat	Paddy	Wheat
1971-72	2.01	0.53	0.76	3.79	2.64	2.64	3.78
1972-73	2.08	0.55	0.76	3.78	2.74	2.64	3.65
1973-74	2.28	0.70	0.76	3.26	3.00	3.68	4.00
1974-75	4.35	0.74	1.05	5.88	4.14	2.04	2.90
1975-76	4.02	0.74	1.05	5.43	3.83	2.21	3.13
16-3-1976	3.80	0.74	1.05	5.14	3.62	2.34	3.32
8-2-1977	3.59	0.74	1.05	4.85	3.42	2.47	3.51
14-4-1977	3.59	0.74	1.10	4.85	3.26	2.47	3.68
12-10-1977	3.37	0.77	1.10	4.33	3.06	2.74	3.92
11-4-1978	3.37	0.77	1.125	4.38	3.00	2.74	4.01
29-9-1978	3.37	0.85	1.125	3.96	3.00	3.03	4.01
23-1-1979	3.37	0.85	1.15	3.96	2.93	3.03	4.01
10-3-1979	3.15	0.85	1.15	3.71	2.74	3.24	4.38
21-9-1979	3.15	0,95	1.15	3.32	2.74	3.62	4.38
13-3-1980	3.15	0.95	1.17	3.32	2.69	3.62	4.46
8-6-1980	4.35	0.95	1.17	4.58	3.72	2.62	3.23
6-10-1980	4.35	1.05	1.17	4.14	3.72	2:90	3.23

Source: Fertiliser Statistics — 1979-80.

price relationships are at least maintained at the existing levels, though not much favourable to the cultivator, the fertiliser consumption may not grow and the agricultural production may be affected. The recent farmers' agitations are the real reflections on changes in the input/output ratios and profitability. The expenditure on major inputs such as, fertilisers, diesel oil and electricity (expenditure on oil engines, electric motors, tractors etc.) and wages for agricultural labourers, is increasing tremendously and the output prices are being raised in less proportions after many demonstrations and agitations. The data regarding price of Nitrogenous fertilisers based on Urea (based on other complex fertilisers will be much higher), the procurement prices of paddy and wheat, the input/output price ratios (Kgs of grain required to buy 1 Kg of Nitrogenous fertilisers) and gross financial return on every rupee invested on nutrient N are presented in Table-2.

It can be seen from Table-2, that the present input/output ratio is much less favourable to paddy cultivators, vis-a-vis the wheat cultivators. The relatively high procurement price of wheat is well known to its lobbying power. Though crop procurement prices have increased considerably to maintain the input/output ratio at a reasonable level, the escalation of fertiliser prices in June, 1980 has made the gross financial return on rupee invested on fertilisers as very unfavourable to the cultivator. The sharp escalation of input prices by about 38 per cent at one full sweep is too big and it cannot be absorbed by the farmers and reminding the price situation of 1974-75. Since the quantum of increase in procurement prices has not lessened the impact of rise in fertiliser prices, fertiliser consumption in 1981-82 may be adversely affected. Further, the recent hike in fertiliser prices by Rs. 300 per tonne is creating a fear among the cultivators and there is the possibility of a repetition of the situation of 1974-75. Hence, unless (1) the pricing policy of fertiliser is revised and are highly subsidised and (2) the return on every rupee invested by the cultivator on fertilisers is kept at a constant level at least at the level prior to June, 1980, the depressed demand for fertilisers in 1979-80 and 1980-81 may not ressume an upward trend from 1981-82 onwards and we cannot assume any accelerated growth in consumption in the early 80's.

With the ever increasing cost of fertilisers, harvesting of nitrogen in the farmers' field through the use of bio-fertiliser and green manuring extensively should be promoted. As the experimental results have shown that fodder especially 'berscan' will fix 400 kgs of atmospheric nitrogen per hectare, emphasis should be given and promotional efforts should be made to grow green manure through introduction of legume based cropping system. Besides, the promotional efforts, on the use of Biofertilisers and fodder crops, a huge network of biogas units should be developed so as to replace the soil nutrients without sacrificing the fuel requirements based on cattle shed waste.

Increase in Life Expectancy in India

By **Sankaran** *

EXPECTATION of life at any age indicates the average number of years that a person is likely to live after a specific age. These are estimated as a part of human censuses. India is fortunate in having them conducted since 1891. At the turn of century expectation of life at birth was a low as 22.9 followed by a dip during the next decadal period 1911-21. The decrease was mainly due to the pandemic of Influenza which raged in India during 1918. Since 1921, there has been a consistent increase in the expectation of life at birth. The increases can be attributed to many factors, better health care, better nutritional status and an all-round improvement in social conditions. In 1951-61 the combined expectation of life of male and female was 41.3; between 1961-71, it was 45.0 while according to the 1981 Census it is 48.9. The female expectancy of life since 1921 is consistently less than in the male. This variation is particularly because of marked maternal morbidity and mortality and the figures were 26.6 as against 26.9 for males in 1921-31. During the decade 1961-71 the corresponding values are 46.7 and 46.4.

At all the ages for both males and females expectancy of life increased during 1951-71. There has been an impact of health services at all the ages. Besides, it may be worth nothing that the female expectation of life is more at age 50 than for males. Levels of the expectation of life would be different is different States depending upon the mortality conditions. Gains in expectation of life will be relatively less for the States having already achieved higher levels of expectation than the others. This point has been taken note in 0.5 years increase per annum for males and 0.55 for females by Expert Committee on Population Projections.

Expectation of life is a good evaluative index. There have been consistent steady increases in the health status of the country. The gains have been all-round at different age levels and in all the States of the country.

However, in comparison with the other developed countries a good deal has yet to be achieved. In view of increased outlays for better health facilities in rural areas and the munimum needs programmes, small family norms, spacing of child birth, better antenatal services, expanded programme of immunization, it is expected that the gains in life expectancy will be more pronounced in the very near future. Great strides have been made in the improvement of health status of the country. The greatest achievement during the year 1975 has been the attainment of zero incidence of small-pox. No case of Plague has been reported in the country since 1967. The National Malaria Eradication Programme has generally been success, despite a recent set-back with resurgence.

---

* Dr. Sankaran is Former Director, Central Health Services Government of India.

HELP THE DISABLED
WORK FOR A LIVING

1981 is the International Year for Disabled Persons. Let your sympathy for them take practical shape this year.

Help them secure jobs. If not, inform them about Syndicate Bank's schemes to finance them at concessional rates of interest for productive endeavours. The Bank also has schemes to help them for their education in School/College/ Polytechnics.

Let us help them conquer their disability and enable them to lead as useful life as normal persons.

SYNDICATE BANK

SYNDICATE BANK
Where service is a way of Life

Head Office :
MANIPAL-576119, (Karnataka State)

Indian Industry — Performance and Guidelines

By **Brij Mohan Sharma** *

Since independence, India has developed a fairly diversified industrial structure and has emerged as the tenth largest industrial country in the world. The industrial sector, besides catering to the bulk of domestic needs, has also developed considerable export potential. But, as the author points out, the growth remains lop-sided. He suggests that a new industrial strategy is needed to tackle the problems of poverty and unemployment since the old pattern of development has not been of much help.

THREE decades of planning and 'mixed economy' type of development have their plus and minus points. Industry has flourished; infrastructural self-sufficiency is attained: *per capita* income has gone up; financial intermediation and monetisation have expanded; and India is ranked today as the tenth largest industrialised nation in the world. But the problems of poverty, unemployment and population have increased; income disparties have widened; regional imbalances are more acute; economic power is concentrated in a few hands; goals laid in Plans and Industrial Policy Resolutions have not been realised; increased controls were not able to check misallocation of resources and biased development of industry.

To solve all these problems, alternative political, social and economic approaches have been suggested by industrialist, educationists and political scientists. On the other hand, the economic system and social relations are in their dynamic phase. The country has reached a crucial point when a a review the economic policy to meet the set socio-economic goals seems appropriate. The first part of the paper deals with performance and second part with guidelines.

The development of industry raises many issues concerning maximisation of employment *versus* productivity; the emphasis on incentives; the choice of techniques; consumer goods *versus* investment goods; protective *versus* flexible policies; use of renewable *versus* non-renewable resources over a long period; and the long term questions on energy, ecology and industrial climate. All these issues are to be examined in relation to poverty, unemployment and wide income-disparities.

Our national income is around Rs. 78,000 crores; industrial production is worth nearly Rs. 40,000 crores; exports were worth Rs. 6,000 crores; our foodgrains output is about 130 million tonnes. The public sector has made substantial progress in the last thirty years. It has achieved new heights in bridging the technological gap. It has accumulated expertise in research, development and engineering. Saving and investment as proportion of national income have gone up, over the period of time. Investment has exceeded domestic saving, the gap being filled by an inflow of foreign resources. The major portion of savings emerged from the household sector.

The rate of growth of industry during the planning era can conveniently be divided into two parts: (i) from 1950-51 to 1964-65 it was a period of rapid and continuous growth; (ii) the period after 1964-65 has been characterised by sluggish growth of industry. Industrial production increased at an average of 7 per cent during 1950-51 to 1960-61. The growth recorded stood at 9 per cent during 1961-62 to 1964-65. During the Fourth and Fifth Plans, the rate of growth recorded on an average was 4.5 per cent. The annual average rate of growth gradually accelerated from the First Five Year Plan through the Third Five Year Plan from 6 per cent to 9 per cent. The following Table shows the average annual growth in basic industries, capital goods industries, intermediate industries and consumer goods industries.

In the year 1956, the Industrial Policy Resolution was unfolded. It set the varying roles for public and corporate sectors in the industrial development of India. The objectives like industrial self-sufficiency, import-substitution, and geographical dispersal of industries and encouragement of medium enterprises and new entrepreneurs were emphasised. Investment in intermediate, capital and basic goods industries have gone up. Their share in the total value added by the factory sector rose from 32 per cent in 1950-51 to 62 per cent in 1976-77. The consumer goods sector registered a decline in the total value added. The non-consumer goods sectors recorded a rapid growth than consumer goods industries.

India has emerged as tenth largest industrialised country in the world. Domestic output now sup-

AVERAGE ANNUAL GROWTH RATE

(1960 = 100)

Industries	1951-1955	1956-1960	1961-1965	1966-1970	1971-1978
Basic Industries	5.0	11.5	10.0	6.5	6.5
Capital Goods Industries	29.0	2.0	20.0	2.0	6.0
Consumer Goods Industries	5.0	3.0	5.0	4.0	4.0
Intermediate Goods Industries	7.0	4.5	7.0	4.0	4.0
General Index	6.0	7.3	9.0	5.0	5.0

Dr. Brij Mohan Sharma teaches in IFCI-Unit, Dept. of Economics, University of Bombay, Vidyanagari Bombay-400 098.

* Views expressed in this article are those of the Author, and do not necessarily reflect those of the Institution with which he is associated.

plies a major portion of home demand for a number of goods and services as well as to industries. Several process industries have emerged as the leading exporters and are earning valuable foreign exchange. Imports substitution has been successful in the case of goods like iron, steel, aluminium, textiles, caustic soda, cycle and allied products. There is a good supply of skilled personnel in the areas of science, technology, management and marketing. There is a rapid rise in the Indian joint ventures abroad and increasing value of exports of turnkey projects and consultancy services in industries of the potential value of human and skill resources available to the Indian industry.

At the time of independence, there was an industrial base in terms of traditional industries like jute, textiles, sugar, tea and also some manufacturing and processing industries but a sufficiently strong infrastructural base was lacking. There is no doubt that the needed modifications and reformulations in production and distribution policies have been effected; but it is undeniable that there is substantial progress in the vital sectors of the economy. India has developed a fairly diversified industrial structure covering both basic and consumer goods industries.

Planning in the real sense started with the Mahalanobis strategy contained in the Second Five Year Plan. The First Five Year Plan was more in the nature of a rehabilitation plan. The Second Plan which emphasised the 'heavy industry' strategy, constituted the foundation on which the subsequent Plans were formulated. There was a tilt in favour of heavy industry. It helped in laying the foundation of industrialisation.

In our mixed economy, the government has emerged as the biggest entrepreneur in the areas of railways, post and telegraph, fertiliser, steel etc. The corporate entrepreneurship is another feature. The latter does not suffer from large non-utilisation of capacity. It uses internal as well as external capital. The public sector units are faced with the problems of poor productivity and so on. The corporate sector mobilises capital by new issues and borrowings. The corporate sector meets its as much capital requirements through borrowings, as there are fiscal advantages involved in borrowings. New financial instruments like equity shares, debentures, fixed deposits, convertible bonds etc. have become popular. The public sector units depend on the government and the banks for fixed capital and working capital respectively.

Despite this impressive performance of the industry, the Indian industry could not play the role expected of it in generating employment and in encouraging industrialisation in small scale sectors. Since 1956, the industry has not been able to create much employment. It continues to be dogged by unduly long project gestation periods, poor capacity utilisation, inadequate technological innovation, increasing rate of obsolescence and a low rate of increase in production. This has led to rather limited diffusion of technology and mass participation. By creating limited employment opportunities, it has not made a sufficiently strong impact on the problems of poverty and unemployment. Consequently, our progress in terms of *per capita* income or employment generation has been far too inadequate. India still remains a very poor country as listed by the World Bank. Unemployment exceeds 20 million.

As far as the public sector is concerned, it has been experiencing low rate of return. If one compares the quality of managers, engineers etc. in the public sector with that of the private sector, hardly any difference is discernible. The reasons for their poor performance are imperfect estimates of demand, over-capitalisation and lags in distributing dependent inter-industrial inputs to output process. It could also been due to indiscipline, corruption, labour-disorders and so on. The pricing policy, may account for the existence of deficits in public sector. While the private sector is capable of adjusting cost burdens in a short-period, the public sector can do so only over a long period. The basic tenets of pricing are different in the case of public and private sectors.

Productivity of investment can be measured by the incremental capital-output ratio. This portrays over a time-period the annual increase in investments with the annual increments in the value added in the economy or various sectors. It was expected that with the emphasis on capital intensive industries, the initial incremental capital-output ratio would be substantially high. However, as the economies of scale are reaped, after a period say 10 to 20 years, the incremental capital-output ratio generally declines. But it has not happened. The ICOR was 3.2 during 1951-61 (at constant 1960-61 prices). It rose to 5.0 during 1961-71. This sharp increase was the result of the increasing capital-intensity in the industry. The ICOR will have risen even to 6.0 during 1971-79.

It may be noted that the projections of high rates of growth in industrial output during the Five Year Plans were too much overestimated. Of course, there is nothing wrong in keeping the objectives high as a means of encouraging the participant factors in the industrial growth. But the frequent failures in reaching these goals brought uncertainty in investment planning. Moreover all these forecasts assumed, *a priori*, the conducive economies of scale and in raw-materials. But that has not been the case.

During the last ten years, the insufficient supply of power and transport has acted as one of the most important bottle-necks in hampering production. Inadequate supply of electricity constrained industry to utilise its productive capacity only partially. Transport limitations often affected the production and distribution of basic inputs to the public sector and the private sector. Industries producing iron, steel, cement, cotton textiles, and power, which are the main end-users of coal and electricity, were affected to the maximum extent. Industry also faces periodic shortages of industrial raw materials. This further impedes the full-utilisation capacity in several industries. The sharp upsurge in the prices of crude oil and allied products, after 1973, subsequently worsened the situation.

The persistence of serious unemployment and underemployment has been the result of the application of inappropriate technology. Even the indirect employment effects have been negative. There is hardly any integration of labour-intensive techniques, which involve the development of ancillary units. As far as the development of technology is concerned, there has been an attempt to bridge the technology gap between domestic and international techniques, especially in conventional export-sectors. Upgradation of technology is sought in the industries which brought foreign exchange reserves.

II

Development depends on capital and in turn capital depends on development. Each subsequent Plan gets resources from the earlier Plan. Only a relatively small part of the resources are sought from external sources. While during the first two decades of planning, the rate of savings was less than the rate of investment, the picture changed completely in the last few years. Currently, the rate of savings is higher than the rate of investment. The performance of the savings suggests that the country has made great strides in providing savings needed for economic development.

Household savings, mobilised through financial intermediation, are used mainly for the development of industry. Compared to the contribution of the rural sector to the deposits with financial intermediaries, a lower amount has been deployed in the rural sector. These savings have provided support to the industry. Another feature is that project financing of the corporate sector has also been facilitated through external funds. However, there have been demand constraints and lack of planning for utilising these excess savings.

Industries are given certain parameters, set by Industrial Policy Resolution Act 1956. As a result of the adoption of the socialistic pattern of economic development, the emphasis is laid on the expansion and development of the public sector in basic areas like the infrastructure. Industrial policy also stands for the reduction of inequalities of income and in the concentration of economic power. These multiple objectives however involve certain trade-offs. There is a need to revise and review MRTP and other Acts having a regulatory and promotional role in the industrial development.

The direct employment effect of consumerg oods is greater than that of capital goods and basic industries. Income, purchasing power and distribution effects are also favourable and superior in respect of consumer goods industries than in other industries. This is because of the short gestation period and the scope they afford for using labour-intensive techniques. As a corrollary, it follows that the accent on consumer goods industries, in addition to bringing about a sectorally balanced growth, helps in overcoming the structural problem of insufficiency of demand arising on account of the deficiency in purchasing power.

Small-scale industries could be a good source of employment generation. This sector is, however, faced with numerous problems, e. g., low per unit surplus, high cost of production, inferior products *vis a vis* products of multinational and other larger-scale firms. Large industries and multinational firms, owing of their intensive and extensive strategy, have captured consumers preferences. All these factors act as major constraints in the development of small-scale industries, especially in the common lines of production.

Even the arguments that acceleration in the rate of investment and output in the organised corporate sector would create opportunities for the growth of viable small-scale industries seem to be inappropriate. Moreover, the growth of certain industries has created unemployment in the rural sector. The type of technology applied, the nature of output and the employment in the corporate sector have given birth to a distinguishable stratified society of managers, professionals and technocrats. The industry is concerned with the vertical development at the micro-level rather with the horizontal development at the macro-level. It has hardly improved the existing technology and production relations.

There is need to revise the structure of industry. This is because, on the one hand, there are problems like poverty, unemployment and low level of living and on the other, we have mixed economy and democracy. Approaches are to be devised to harness our human resources and skilled personnel. Labour-intensive industries and labour-intensive technologies need to be promoted.

There is then the question whether agriculture could be used to provide employment. While the introduction of tractors etc. replace manpower from employment, stiff marketing conditions endanger the operation of small, cottage and village or decentralised industries. All these hamper production in decentralised industries. Additional employment can be generated by bringing additional area under irrigation, construction and infrastructure. In village industries, where production can be decentralised, large employment can be facilitated. That requires the flow of funds to the small scale sector.

Even in our mixed economy, there is a school which thinks that price and distribution controls are unnecessary. They opine that the multiplicity of objectives as laid down in the Plans be achieved through laissez-faire methods. In support, they highlight the (i) decline in the real profitability; (ii) eroding profit margins (iii) paucity of internal resources; (iv) escalation of the cost of projects; (v) general prevalence of industrial sickness and (vi) the disappointing performance of public sector units. They suggest that for accelerating the rate of economic growth, economic considerations had to be assigned higher weightage than other factors.

Private industry pleads for *laissez faire*. In its view, inflation and unemployment can be corrected only by producing more goods and not by more regulations. Inflation is accounted for by the demand for higher wages leading to cost increase and, in consequence, the high money incomes often fall short of the supplies of goods and services. There are excess savings over investment. This indicates the government's inability in planning investment or in providing conditions conducive for investment.

India's Exports of Turnkey Plants: Some Evidence on Technology

By **S. A. Anwar** *

The success of turn-key projects taken up by India in the middle east, Africa and in South East Asia is explained by the flexibility shown by their promoters in meeting the needs of the host countries. They have also been helpful in boosting India's foreign exchange earnings. In this paper, the author touches upon the nature of these projects and indicates the lines along which technology transfer can take place to the advantage of India and the host countries.

THE demand for turnkey industrial plants generally has risen rapidly in the last two decades as a growing number of developing countries, without a strong domestic capital goods base and associated engineering skills have sought to set up manufacturing industries.[1] The oil-rich countries of the Middle East have probably led the way, but a large number of others in Africa, Latin America, and South East Asia have sought to import this form of partly embodied and partly disembodied technology.

The desire of countries to go for turnkey plants consisting of the designing of a complete production system, from plant layout to detailed process technology, the construction of the plant, the provision of all equipment, its commissioning and the training of local personnel, has induced equipment manufacturers in developing countries including India to export turnkey plants. In this paper, an attempt is made to present information relating to India's exports of turnkey plants and review the evidence on the kind of technology involved in such an activity.

The evidence relating to foreign turnkey activity by Indian firms is far from complete, especially as far as 'traditional' industries (textiles, sugar, cement) are concerned. Here, turnkey works have been started quite long time ago, and the scales involved were fairly small. Indications exist that our information net has missed out many such projects. For other industries, however, the evidence seems to be better (see annexure). We have been able to obtain information on almost all the larger turnkey projects that have been undertaken by Indian firms on foreign locations. The amount of detailed information obtained is, however, variable and in several cases only the name of the enterprise, its activity and the destination of exports are given. The status of the job (i. e., whether under negotiation, under construction or completed) is often not clear. Nevertheless, the follwing broad currents are revealed. India's turnkey plants abroad have involved a wide array of technology exports. The information presented in the annexure reveals that some 40 odd enterprises, and over 100 projects, ranging from very 'simple' technologies (textiles, transmission towers, small scale industries) to 'intermediate' level technologies (paints, pharmaceuticals, rubber) and to very complex capital-intensive and/or skill-intensive technologies (power generation, basic drugs, machine tools, telephone exchanges, steel mills, and petrochemicals), have been identified. In fact, the annexure really speaks for itself. We only need to supplement it with the following comments.

First, almost all the contracts have been won in open tenders, mostly in the face of competition from established technology suppliers in developed countries. The existence of relatively 'well-informed' buyers, who have been able to evaluate bids on the basis of technical specifications and price rather than (mainly) on the basis of an established reputation, has undoubtedly helped Indian enterprises to break into these markets. The repetition of orders for several contractors (e.g. BHEL in Malaysia and Libya) testifies to the fact that many enterprises have rendered satisfactory service.

Second, most of the enterprises involved have been locally owned. There have been a large number of private enterprises and a few government ones. Nearly all of them are large firms, though a few instances are recorded of medium-sized firms participating in a consortium to undertake turnkey work abroad. All of them have been engaged in similar work at home before venturing to sell their technology abroad, and indications exist that many of them have ventured to undertake turnkey activity as a next step from selling items of capital equipment. Most of them are specialised equipment producers, though there are a few important exceptions like Engineers India Limited and Engineering Projects India Limited, which have both been set up by the government to do general civil and engineering construction work at home and abroad. These enterprises have always exported technology developed in India.

Third, some Indian enterprises have acted as sub-contractors to enterprises from other countries (e.g. Engineers India Limited to Kellogg Corporation in Sri Lanka, Engineering Projects India Limited to Mitsubishi in Iraq). This is not, however, as common as may be expected, given the cost advantages of Indian firms in undertaking detailed engineering, project supervision and other 'labour intensive' (rather than technology intensive) parts of turnkey jobs. The government has, in fact, been pushing the idea of joint bids with developed country enterprises in a number of recent statements. This is a very promising line of growth in those instances where local enterprises do not possess the level of technology required or (if they do) they are not well-known enough to win contracts on their own.

---

* Dr. Anwar is Lecturer, Faculty of Management Studies, University of Delhi, Delhi-110 007.

[1] We include power generation and distribution, telecommunication systems and air-conditioning systems under 'industrial' turnkey projects.

Finally, in nearly all cases, the technology has been originally imported into the country. For some industries (textile machinery, cement, sugar) the imports may have taken place a long time ago and local enterprises may no longer have any licensing arangements with foreign manufacturers. In other industries, the import of foreign technology may be more recent, by means of licensing or imitation of foreign designs, and, in the case of firms with foreign capital, direct transfer within the MNC framework. The extent of the contribution made to the technology export by the original import depends on the sophistication of the technology. Here we may hypothesise that the more complex the technology, the greater will usually be the contribution of the foreign technology supplier. For simpler techniques, on the other hand, exported techniques will represent mainly local efforts,

Thus, there are definite limits to the complexity of technology mastered by India. This argument leads to the following hypotheses. The more stable and well-diffused a technology, the more will local enterprises find it possible to approach the levels of developed country suppliers. The more dynamic, complex and large-scale the technology, the more difficult will it be for them to find or recreate the conditions in which they can learn it. The dividing line is likely to fall, not by industry but by process or product within each industry. Every industry, even traditional one, may have certain technologies which are in the innovative phase, generally beyond the reach of developing countries. And even every 'modern' industry may have a range of older, stable and diffused techniques which are capable of being assimilated and reproduced by developing countries. Therefore, we should expect to find Indian enterprises competing as technology exporters only upto a certain range of technical sophistication within each industry, lagging behind the 'frontiers' of technology to different extents in different industries.

From the above discussion, it may be assumed that technology exporters may continue to be simultaneously importers of technology. For example, Bharat Heavy Electricals Limited, the largest single turnkey plant exporter from the country, has recently entered into a long-term agreement with Siemens to exchange freely all technological information. For Bharat Heavy Electricals Limited, the benefit clearly lies in gaining access to the results of expensive and large-scale R & D beyond its own capabilities; for Siemens, there may also be some technological benefit beyond the royalties received in terms of the particular adaptations made by Bharat Heavy Electricals Limited to adapt power plants to tropical conditions. A similar case can be made in favour of the sorts of subcontracting arrangements which were mentioned earlier.

To conclude, we wish to state that our paper has simply presented an overview of India's exports of turnkey plants with special reference to technology. We hope, a more rigorous analysis of the emerging trends in India's exports of turnkey plants would take place on the basis of the case studies of leading enterprises in India that are actually engaged in this kind of activity on foreign locations. This would certainly help develop a strong body of knowledge focussing on India's exports of turnkey plants and technology.

ANNEXURE

(As of early 1979)

INDIAN TURNKEY PROJECTS ABROAD BY FIRM AND INDUSTRY*

	Firm and Industry	Nature of Project	Destination	Status	Value in US $
I.	*Traditional Sectors*				
	Lakshmi Textile Exporters	Textile Mills	Malaysia Sri Lanka Tanzania	Completed	n.a.
	Walchandnagar Industries	Sugar Mill	Tanzania	Completed	34m.
	Hindustan Salts Limited	Salt Refinery	Tanzania	Completed	2m.
	Simon Carves	Animal Feeds	Iraq	Complete	1m.
	Consortium of Indian firms	Cotton Spinning	Tanzania	Complete	12m.
	National Small Scale Industries Corporation (Government of India)	32 Small-Scale Industries	Tanzania	n.a	n.a.
II.	*Electrical*				
	Bharat Heavy Electricals Limited (Govt. of India)	Power Generation (Stations, boilers, transmission)	Malaysia	Several Projects Completed and in hand	54m.
			Libya	In hand	122m.
			Libya	Starting	625m.
			New Zealand	Complete	12m.
			Saudi Arabia	In hand	150m.
			Jordan	In hand	n.a.

---

* Prepared by Dr. Sanjaya Lall, Professor, Oxford University, Institute of Economics and Statistics, UK and very kindly given to the author for reference.

(Cont. on page 22)

(Cont. from p. 21)

ANNEXURE

Firm and Industry	Name of Project	Destination	Status	Value in US $
Tata Exports	Transmission Lines substations, power-distribution	Philippiness	n.a.	n.a.
		Thailand	n.a.	n.a.
		Algeria	n.a.	40m.
		Venezuela (with Kamanis)	n.a.	200m.
		Egypt	n.a.	15.m.
Kamani Engineering Corporation	Cables and Transmission Towers	Venezuela (with Tata)	n.a.	(see above)
		Iran (with Brown-Boveri)	Implemented	40m.
		Libya	Implemented	85m.
		Iran	Implemented	n.a.
Western India Erectors Ltd.	Boilers, turbines, sugar, cement other plant erection (sub-contracting from other firms)	Kuwait	n.a.	n.a.
		Iran	n.a.	n.a.
		Algeria	n.a.	n.a.
		Iraq	n.a.	n.a.
Paharpur Cooling Towers	Air conditioning equipment	Bali	n.a.	n.a.
		Malaysia	n.a.	n.a.
		Kuwait	n.a.	n.a.
Elecon Engineering Company	Conveyors for Sugar terminal	Mauritius	Completed	3m.
Wanson	Industrial boilers	Egypt	n.a.	n.a.
		Iran	n.a.	n.a.
		Sri Lanka	n.a.	n.a.
		Indonesia	n.a.	n.a.
		Thailand	n.a.	n.a.
		Kenya	n.a.	n.a.
Engineering Projects India Ltd. (Govt. of India)	Water Treatment Plant	Thailand	n.a.	n.a.
	Part of Petrochem Plant	Abu Dhabi	n.a.	n.a.
	Electrification	S. Arabia	n.a.	n.a.
	Silos, Steel Plant	Iraq	n.a.	n.a.
	Coke Oven Plant	Yugoslavia (with HEC)	n.a.	n.a.
	Fish Canning Plant	Maldives	n.a.	n.a.
		Tanzania	n.a.	n.a.
		Philippines	n.a.	n.a.
		Indonesia	n.a.	n.a.
Polychem	Industrial Alcohol	Indonesia	Complete	n.a.
Indian Drugs & Pharmaceuticals Ltd. (Govt. of India)	Basic drugs & Antibiotics	Algeria	Contract awarded	0.6m.
Rubber Reclaim Company	Rubber factory	Tanzania	n.a.	n.a.
Shalimar Paints	Paint factory	Zanzibar	Complete	n.a.
Engineering Construction Co-op.	Natural gas liquification plant	Doha-Qater	n.a.	n.a.
Telecommunication & Electronic				
Telecommunication Consultants Ltd.	Coaxial Cables	Libya	n.a.	n.a.
Engineering Projects India Ltd. (Government of India)	Expansion T. V., Radio Station (Construction, Testing, Commissioning Sub-contracted from Mitsubishi (Japan)	Iraq	In hand	20m.
Instrumentation Limited	Instrumentation & Control Equip. for power stations	Malaysia	n.a.	10m.
Indian Telephone Industries (Government of India)	Two Automatic Telephone Exchanges	Surinam	n.a.	2m.
	Tel. Connections	Muscat/Aman	n.a.	3m.
	Switching Equip.	Jordan	n.a.	1m.
	Cable laying	U.A.E.	n.a.	50m.

ANNEXURE

Firm and Industry	Nature of Project	Destination	Status	Value in US $
Hind Galvanizing & Eng. Co.	High Voltage Transmission	Malaysia	n.a.	8.2m.
Voltas	Power generation & distribution	(Several countries details n. a.)	n.a.	n.a.
Electrical Mfg. Company	Transmission lines	Dubai	Complete	n.a.
III. Chemical				
Balmer Laurie	Oil Refinery Structures	Bahrain	n.a.	n.a.
	Oil Storage tanks	Burma	n.a.	n.a.
	Fertilizer Structures	Sri Lanka	n.a.	n.a.
	Oil Terminal	Abu Dhabi	n.a.	n.a.
	Lube Blending Plant	Abu Dhabi	n.a.	2m.
Sarabhai Chemicals	Multipurpose Pharmaceutical Plant	Cuba	n.a.	n.a.
Engineers India Ltd. (EIL) (Govt. of India)	Subcontracted Engineering, Construction commissioning (From Kellogg U.S.) for fertilizer plant	Sri Lanka	n.a.	n.a,
Vijay Tanks & Vessels	Sulphoric Acid Plant	Kenya	n.a.	n.a.
	Oil Storage Tanks	Kenya	n.a.	40m.
Asian Paints	Paint Factory	Yemen and Saudi Arabia	Under negotiation	n.a.
De Smet (Subsidiary of De Smet International)	Solvent Extraction Plant	Sudan	n.a.	n.a.
		Iran	n.a.	n.a.
		Yugoslavia	n.a.	n.a.
		Malaysia	n.a.	n.a.
	Railway Control Equip.	Nigeria	n.a.	n.a.
	UHF	Sri Lanka	n.a.	n.a.
Steel, Engineering				
Hindustan Machine Tools (Government of India)	Machine Tool Factories	Algeria Kenya Philippines Sri Lanka Iran Iraq Malaysia Indonesia	n.a.	12m.
Sayaji Engg. Company	Rock Crushing Plant	Afghanistan	Complete	n.a.
Partap Steel Rolling Mills	Steel Mill	Zambia	Complete	n.a.
Consortium of firms	Steel Mill	Mauritius	Complete	n.a.
		S. Arabia	In hand	n.a.
Heavy Engineering Corpn. (Govt. of India)	Electrolyser	Yugoslavia	Complete	n.a.
	Coke Ovens	Egypt	Complete	n.a.
	Coke Ovans (subcontracted from Russia)	Bulgeria	Complete	n.a.
	Coke Ovens, Continuous Casting Plant	Turkey	n.a.	n.a.
	Cranes	Cuba	n.a.	n,a
Karnataka Implements & Machinery Co.	Farm Implements Plant	Tanzania	Complete	n.a.
Gammon India (Subsidiary of Gammon U. K.)	Desalination Plant	Dubai	n.a.	9m.
Engineering Construction Corporation Ltd.	Natural gas liquification complex	Doha-Qatar	n.a.	n.a.
	Dairy Plant	Yeman	n.a.	n.a.

New Classical Approach to Inflation

PROF. P. R. Brahmananda is an outspoken economist. However, in the past, he has not been voluble. Even amongst the professional economists in India who know about him and his works, there is a peculiar mix of envy and disagreement because of which they may not acknowledge the fact that Brahmananda was the one who first used the term 'new classical' way back in 1967, pioneering the development of classical economics along new classical lines, displacing neo-classical value and capital theory, Keynesian macro-economic theories, international monetary theory and the whole lot. If this is not seminal contribution, what is?

In this setting, it is heartening that Brahmananda's *magnum opus* on inflation* has seen the light of the day. This work lies somewhere between 'popular literature' and others incorporating 'forbiddingly high level of expertise'. The result is, this book turns out to be PRB's most lucid work in recent times His book should serve to put even the most uppity of Indian economists wise on the overwhelmingly importance of inflation. This conclusion is justified because as Brahmananda rightly remarks, there is an absence of a strong bias amongst economists against the price fever.

Brahamananda's book consists of 49 chapters and 11 explanatory notes (appendices) grouped under six parts. The first and the second parts enquire into the nature and causes of inflation. They examine the monetary connection, the Keynesian price behaviour and also the relevance of the "Chicago School" to Indian conditions. The inadequacy of real cash balance effect in India has been looked into. In the third part, the consequences of inflation *vis a vis* production, unaccounted incomes, distributional aspects, savings, economic growth, foreign trade, etc. have been examined. Part four deals with the solutions to inflation including indexation as well as curbs on money supply. Part five is related to world-wide inflation, the international quantity theory of money, the role of gold and the global solutions for the malaise. The last part constitutes the author's findings and conclusions.

Brahmananda exudes missionary zeal in calling for fighting inflation and takes the government, the economists, industrialists — and everyone else too — to task. Prof. Brahmananda adds an ethical or moral dimension to the battle against inflation. He does not spare economists and politicians who swear that their monetary and fiscal policies would deliver progress, when actually all they do is to debase the currency. He recounts how inflation leads to unaccounted money, inequitable distribution and 'the framework of asset preference' gets twisted out of shape. It is, therefore, morally wrong to delude or 'fool' people about achieving progress through inflationary methods. In the same vein, he rightly condemns as tomfoolery attempts at complete indexation.

At a time when economists the world over seem to think that constant prices, like full employment, is a dead concept, Brahmananda attempts to dethrone the theory that a zero inflation rate would not yield the desired growth. He brings out the fallacy in the argument that once a high growth rate is achieved, one can tolerate a moderate rate of inflation. He discusses the role of business lobbies which have a vested interest in inflation (shades of B. R. Shenoy's "perverted shifts in income from the poor to the rich" on account of inflation).

Unfortunately, the world over, economists themselves have been common bedfellows with (a) governments which merily indulge in callous pump-priming, (b) planners whose hobby horse is creation of white elephants with taxpayers' money and 'deficit' finance going into unproductive blackholes and (c) businessmen whose professional ethics pressurise them to lend support to profit-maximisation and perpetual growth policies, howevermuch government spending they may involve. Take, for instance, the recent stand of three economists associated with the Confederation of British Industries: Prof. Brian Reddaway, Sir Bryan Hopkin and Marcus Miller.[1] They have criticised the British government's medium-term financial strategy fixing monetary targets and instead, have advocated cautious reflation and currency devaluation to a level of £1 : DM 4.

It is timely that Prof. Brahmananda calls upon the professional fraternity everywhere to re-examine their views *vis a vis* inflation, accept the New Classical monetary theory, see for themselves the deficiency in Patinkin's real cash balances theory and appreciate the urgent and real need for a vigorous anti-inflationary policy. In this respect, it is very reassuring that an economist of Brahmananda's stature takes up cudgels in favour of the common man and even calls for a passionate commitment to exorcise the evil of inflation.

One of the major highlights in this work is the adumbration of the New Classical theory. This School attempts to integrate the monetarist and inventorist approaches within the quantity theory of money. It introduces real balance effects instead of Patinkin's real cash balances approach which cannot explain why and how increasing velocity of money circulation and increasing prices often occur at the same time. It takes cognizance of inventory levels and the propensity to hoard at inflation time.

---

* GROWTHLESS INFLATION BY MEANS OF STOCKLESS MONEY, by P. R. Brahmananda, Himalaya Publishing House, Bombay, November 1980, Pp. XVII + 471, Price Rs. 95.

[1] *Financial Times*, August 20, 1981.

Even in India, it has beed acknowledged that neither Keynesianism nor monetarism would provide the right solution. Instead, one must take due note of the combined impact of physical inventories together with money supply on the price levels. The Keynes-Friedman view that money matters in the short-term in the determination of real output is not acceptable.

New Classical economics attempts to show that monetary/fiscal policies do not have much of an effect on employment, output or growth. One should, therefore, stop worshipping at the Keynesian altar. The Professor has employed empirical data to establish what may appear as paradoxical, viz., higher inflation accompanied by higher unemployment setting at naught the Phillips curve, even if expectations-adjusted and falling ratios of savings to income.

In this setting, it is difficult to say whether Prof. Brahmananda is a romanticist as far as his New Classical economic theory and zero inflation rate are concerned. A slump could be an antidote to the toxin of inflation in the economy and he approvingly quotes Shakespeare, "mountains can be removed by earthquakes". Just as both the sinners and the pious have to suffer on account of such acts of God, similarly macroretribution over the entire country would hurt both the affluent as well as others. But that cannot be helped.

Therefore what Professor Brahmananda aspires for is a great slump or a depression which would bury inflation. These words should make sweet music to Marxians. But, then, one might very well ask: which government would risk political suicide? Would you be around to scuttle the inevitable Keynesian New Deal or its mini version followed by reflation perhaps with vengeance? It is these non-economic reasons for inflation which Brahmananda's book cannot perhaps relate itself to, beyond calling upon one and all for a commitment to finish the demon.[2] In this respect, Dr. Brahmananda's approach begs the question.

New conservatism and fear of inflation may even be laughable and Prof. Reddaway has even said so. Could such differences be explained to some extent by the "impossibility of a value-free positive economic science" a deficiency true of all social sciences and to which Milton Friedman refers to in his Nobel address (1976)? Or is it a reflection on the underdevelopment of economics?[3].

Brahmananda is quite covincing when he holds out against the post-Keynesian economic blasphemy of denying the connection between the rate of growth and stock of money on the one hand and the rate of and the volume of production on the other. He asserts convincingly "stockless money's impact.... is not merely growthlessness, but also less growth than would have been the case otherwise". Excess money adversely affects both production and growth. Hence, the title: "Growthless Inflation by Means of Stockless Money".

Brahmananda's point that a stable value of purchasing power enables more accurate planning, cannot be gainsaid, especially in the light of the experience that no sooner the 5-year plans are formulated and published than they are rendered out of date by the price fever. More importantly, the degradation not only in physical living conditions, but also in the very value system which the society may cherish cannot be lost sight of. Inflation overdoes economism and this is well driven home by the author.

— **Dr. S. V. Char**

Commerce Annual's Focus on Infrastructure

The annual numbers of *Commerce* (Editor: Vadilal Dagli, published from Manek Mahal, 90, Veer Nariman Road, Bombay-400 020) are always noted for their in-depth analysis of the topic taken up for survey. The 1980 annual number focuses on "Infrastructure in the Indian Economy". The 400 page special number starts off with a lengthy editorial survey by Mr. Vadilal Dagli and follows this up with articles on the performance of the various industries that come under the term, "infrastructure". It is difficult to pick and choose from such a dazzling array of authors but one can pardonably make special mention of editor Dagli's piece, "Rural Infrastructure for the Eighties" in which he lays special emphasis on reducing the inter-state imbalance in rural electrification and also on the need to link more villages with roads and to provide safe drinking water facilities to nearly 2 lakh villages which do not have them. He also suggests that Banks should evince greater interest in setting up gobar gas plants in villages.

Among the other instructive articles, mention may be made of Dr. V. K. R. V. Rao's piece on "Infrastructure and Economic Development", "Obstacles for Heavy Industry" by Mantosh Sondhi, "In search of an Energy Policy" by Prof. A. K. Saha, "Animal Energy in Agriculture and Transportation" by Prof. N. S. Ramaswamy. Another special featura of the Commerce Annual, 1980, is the state-wise suveys of the infrastructure development by competent writers. The annual, priced at Rs. 40, will be a good acquisition for research institutions and college libraries.

— **K. N. S.**

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. [illegible]-25

---

[2] Book Review of Andrew Tylecote, The Causes of the Present Inflation, *The Economist*, August 22, 1981

[3] E. H. Phelps Brown, The Underdevelopment of Economics, *The Economic Journal*, March 1972.

RBI Policy for Opening Urban Co-op. Banks

PROMOTERS of primary urban co-operative banks should bear in mind the important policy considerations which are usually taken into account by the Reserve Bank in granting or refusing licences for registration of new banks and opening of branches by existing banks. This has been emphasised by the Reserve Bank in a press release, issued in the context of the recent sudden spurt in the applications received by it for registration/licences to start new banks (68 during the year 1980-81 against 25 in the previous year) and applications for opening new branches (221 against 185). The sudden spurt seems to be based on the impression that the promoters are entitled to licences if they merely fulfil the minimum requirements in regard to share capital, number of members and the byelaws. The salient features of the policy governing grant of licences to urban co-operative banks under the Banking Regulation Act are as follows ;

1. The applicant bank should have or is likely to have a truly co-operative character. If the membership is drawn from a large area with little or no cohesion or commonality which has significance for the social policy objectives of Government, it will ordinarily be construed to detract from the co-operative character of the institution unless there are other compensatory features.

2. An urban co-operative bank must be truly urban. There are no objections to the inclusion of different urban centres of the same district in the area of operation provided the co-operative character is not diluted and there is no objection on other grounds. The practice of adding a number of villages in the area of operation or covering the entire district cannot, however, be viewed with favour. Since the national policy is to promote and strengthen the different types of co-operatives for serving the needs of villages (such as primary agricultural credit societies, farmers' service societies and district central co-operative banks), no urban co-operative bank can be allowed to come in the way of these institutions.

3. The need for a new urban bank or a new branch of an existing bank is determined in the light of the network of bank branches existing in the area and the general policy of the Government/Reserve bank for expansion of the network. Consistent with the present policy of the public sector occupying the commanding heights of the financial system in the country, preference is given to nationalised banks wherever it is found necessary to open new branches for achieving better coverage and satisfying the convenience of the banking public. The district central co-operative banks and the regional rural banks, which have the responsiblity for mobilising deposits for use in rural areas, are also given suitable opportunities in selected urban centres.

In recent years, no licences have been issued to joint-stock companies for starting new commercial banks. Even in the case of existing commercial banks in the private sector, licences for new branches have been issued on a very restricted basis. Instances have come to notice that certain groups ordinarily carrying on their business through commercial banks have sponsored urban co-operative banks with the main purpose of gaining control over the savings of the community at large. There are also instances where rival groups have claimed the privilege of promoting new urban co-operative banks or expanding the new ones in centres which are already well served by branches of nationalised banks.

4. The applicant banks should have command over the necessary skills, expertise and experience at the level of directors and staff in order to grow into reasonably good and viable banks. Licence is refused if full satisfaction is not forthcoming in these matters. The Reserve Bank is perturbed at the large number of urban co-operative banks which have violated the directives on rates of interest on deposits and maximum limits on advances and which have defaulted in the maintenance of minimum cash reserve and liquid assets for long periods, The inspections carried out by the Reserve Bank during the last few years have shown that, while some of the older urban banks have performed in all respects as well as the commercial banks, several of the new urban banks are still to streamline their operations and tone up their management in accordance with sound banking principles and the directives of the Reserve Bank.

Pending the announcement of new licensing policy for commercial bank branches during the remaining years of the Sixth Five-year Plan, the Reserve Bank has decided not to entertain any application for establishment of new urban co-operative banks or opening of new branches by existing banks in metropolitan centres with a population of 10 lakhs and above. In the urban and semi-urban centres with a population of less than 10 lakhs, applications for new urban co-operative banks will be considered strictly on merits in the light of the considerations outlined above and the findings of joint survey by a team of the representatives of Reserve Bank, Registrar of Co-operative Societies and the apex co-operative bank concerned. If the promoters of new urban co-operative banks collect share capital in advance and make other commitments, they will do so entirely at their own risk.

Record Turnover by Mukand Iron

THE turnover of Mukand Iron and Steel Works Limited during 1980-81 reached a record level of Rs. 110.34 crores, compared to Rs. 78.91 crores in 1979-80. There has also been an impressive rise in the company's gross profit, from Rs. 4.75 crores to Rs. 7.35 crores. The pre-tax profit, which stood at Rs. 3.70 crores in 1979-80, rose to Rs. 6.16 crores. The after-tax profit stood at Rs. 3.06 crores, against Rs. 1.55 crores in the previous year. In view of the company's improved performance, the Directors have recommended a step up in the equity dividend, from Rs. 1.20 per share to Rs. 1.50 per share. This will absorb Rs. 1.21 crores.

There has been a planned change in the company's product mix with increases in the sale of carbon, free cutting, alloy and stainless steels. The stainless steel supplied by the company has been well accepted for re-rolling, forging and bright machining as well as for utensils manufacture. The sales of this item increased substantially from 510 tonnes in the previous year to 3,418 tonnes.

The company has applied for industrial licence to manufacture sponge iron, using non-coking coal. This captive plant, with a capacity of 2 lakh tonnes per annum, is proposed to be located in a backward district in Maharashtra. The company has also applied for substantial expansion of its steel making capacity from 1,35,000 to 2,70,000 tonnes of billets per annum. The estimated cost of these projects, amounting to Rs. 39 crores, will be met by long term loans from the financial institutions and retained earnings. The company has, under way, a comprehensive modernisation programme which will help in improving the quality of its products.

The company proposes to issue 3,50,000 secured convertible debentures of Rs. 200 each for a total value of Rs. 7 crores. The issue will be made by the end of the year. The debenture will be for a period of 10 years and carry interest at the rate of 13 5 per cent per annum, payable half yearly. An additional interest of 1 per cent per annum will be payable if the dividend on ordinary shares of the company exceeds the average rate of dividend for the last three years. Each debenture will be convertible into 5 ordinary shares of Rs. 10 at a premium not exceeding Rs. 5 per share.

13 per cent Increase in Colour-Chem Sales

THE sales of Colur-Chem Limited have registered a marked rise of 13 per cent, from Rs. 44.19 crores in 1979-80 to Rs. 50.07 crores in 1980-81 (year ended March 31). The company's pre-tax profit, which stood at Rs. 4.31 crores in 1979-80, improved to Rs. 4.66 crores. The net profit stood at Rs. 1.87 crores against Rs. 1.60 crores in 1979-80. In addition to the equity dividend of Rs. 12 per share wich has been provided for, a silver jubilee dividend of Rs. 3 per share has been recommended to mark the completion of 25 years.

The directors point out that, despite the 13 per cent increase in the sales, the company's profitabitity has shown a decline in view of the higher cost of inputs and competition from the smaller units which enjoy an excise duty concession. The company has stepped up its exports from Rs. 1.81 crores in 1979-80 to Rs. 2.17 crores in 1980-81. The company's Roha Project (expanded capacity for reactive dyes) is nearing completion. The company's joint venture in Sri Lanka, Haycolour Limited, has commenced production. If the company's turnover during the first 4 months of 1981-82 is any indication, there is likely to be a downturn in production but the management is taking steps to prevent a fall in the profitability through cost control and other means.

Reckitt & Colman to Issue Bonus Shares

BOTH the sales and profit of Reckitt & Colman of India Limited have recorded an increase in 1980 but the figures for the year pertain to the 53-week period ended January 3, 1981 and as such are not strictly comparable. Sales have risen from Rs. 16.24 crores to Rs. 19.96 crores while the pre-tax profit increased from Rs. 1.78 crores to Rs. 2.26 crores. The recommended equity dividend is 18 per cent, taxable. The company proposes to capitalise Rs. 49,94,900 from the Reserves to issue bonus shares of Rs. 10 each in the ratio of one to five. As a first step towards diversification into fine chemicals, the company plans to set up a Research & Development Centre. The construction of the laboratory building has already commenced on a site acquired for the purpose in a recognised backward area in Hosur (Tamil Nadu). The centre is expected to be operational by September 1981.

1981-82 Augurs Well For Larsen & Toubro

THE profitability of Larsen & Toubro Limited in 1981-82 is higher than the corresponding period last year. Sales for the first four months ending July 31, 1981 totalled 54.07 crores against Rs. 36.54 crores during the corresponding period in the previous year. Production rose to Rs. 42.78 crores from 29.10 crores. Order booking as on July 31, 1981 was Rs. 77.61 crores compared to Rs. 41.58 crores on July 31, 1980. The backlog of orders is Rs. 155

crores compared to Rs. 117 crores for the previous year. Subject to unforeseen circumstances, the company's cement plant is expected to be commissioned by February 1983.

The company has decided to enter shipping business. An application has been submitted to the Monopolies and Restrictive Trade Practices Commission for its approval for the immediate purchase of bulk carriers totalling 110,000 DWT. The capital cost is estimated at Rs. 70 crores which will be financed through overseas borrowings as well as the company's own funds. The Engineering Construction Corporation Limited has secured a large order valued at Rs. 40 crores from Iraq for the construction of police headquarters in Baghdad. ECC is executing two earlier contracts in Iraq, together valued at Rs. 26 crores. The total value of overseas orders including orders from Abu Dhabi and Sri Lanka currently under execution by ECC stands at Rs. 86 crores.

Enfield India Wipes off Earlier Losses

DURING the year ended July 31, 1981, Enfield India Limited showed an increase in its turnover from Rs. 22.97 crores to Rs. 31.95 crores. Exclusive of excise duty, the net sales stood at Rs. 27.55 crores. The company's gross profit has shown an increase of 32 per cent from Rs. 2.06 crores to Rs. 2.72 crores. The residual profit stood at Rs. 1.31 crores against Rs. 71.14 lakhs in 1979-80. In view of the improved performance, the company's accumulated losses, which stood at Rs. 3.58 crores at the end of 1977-78 and at Rs. 2.05 crores at the end of last year, has been brought down to Rs. 66.81 lakhs. This can be easily eliminated in the first half of 1981-82. It will then be possible to clear the arrears of preference dividend and also to resume the payment of equity dividend.

The Agro Engines Division also fared well. The output of "Bullet" motor bikes touched a new peak of 19,512 units at Tiruvottiyur Division against 16,180 units in the previous year. At the Anaikaraipatti Division, there was an increase of 81 per cent in the production of "mini-Bullets" to 4,866 units as against 2,682 units in 1979-80.

Higher Turnover by Seshasayee Paper

The Seshasayee Paper and Boards Limited has recorded a sales turnover (inclusive of excise duty) of Rs. 37.93 crores during the year ended March 31, 1981, compared to Rs. 28.13 crores in the previous year. In terms of quantity, the company's production and sales increased from 43,074 tonnes and 42,927 tonnes respectively in 1979-80 to 53,701 tonnes and 53,413 tonnes in 1980-81. The company's gross profit has improved from Rs. 4.37 crores to 4.57 crores. The net profit stood at Rs. 68.79 lakhs, The equity dividend recommended is 12 per cent. The company has been increasing the use of wood in its raw material mix in the view of the declining availability of bamboo. The share of wood has increased to as much as 70 per cent. The company has been invited by the Government of Tamil Nadu to render project consultancy services in the establishment of a 300 tonnes per day newsprint-cum-paper plant in Tamil Nadu. The state Government has formed a company styled Tamil Nadu Newsprint and Papers Limited for this purpose. Seshasayees are entrusted with the responsibility for implementation of the project.

Gross Profit of CPIL Declines

Although there has been a marked improvement in the gross sales of Cellulose Products of India Limited during the year ended March 31, 1981 from Rs. 9.83 crores to Rs. 10.72 crores, the gross profit registered a decline from Rs. 1.11 crores to Rs. 94.87 lakhs. This is explained by increased raw material costs, the cost of power and coal and also higher interest rates. Equity dividend is maintained at Rs. 16 per cent.

The expansion of the company's PVA plant at Kathwada Factory to increase its capacity from 500 tonnes to about about 625 tonnes per annum has been fully completed. The company proposes to modify cotton Linter Pulp Plant at its Ramol Factory and to increase its capacity to 3,000 tonnes per annum. The total cost of this expansion and modification would be about Rs. 28 lakhs. The implementation of the distillery project for the manufacture of industrial alcohol with a capacity of 10 million litres per annum at the plant to be located at Ankleshwar, (Dist. Bharuch) Gujarat, has considerably been delayed for want of "No Objection Certificate" from Gujarat Water Pollution Control Board.

Gulf Funds for Hotel Promoted by GIIC

FORESEEING the need for hotel facilities of international standards, Gujarat Industrial Investment Corporation Limited has taken a lead by deciding to set up hotels at important cities of the Gujarat. GIIC has recently signed the shareholders' agreement with GEAP group based in United Arab Emirates, for setting up a Hotel at Baroda. The estimated outlay for the hotel project would be about Rs. 3 crores. The projects will be set up on the joint sector pattern of 26:25:49 among GIIC, State Government, GEAP group and the public. The group has also shown interest in setting up a cement project as a joint venture. The uniqueness of the proposal is that, to start with, clinker grinding facilities will be established for grinding imported clinker and subsequently, clinker-making unit will be set up. This proposal will save foreign exchange worth Rs. 45 crores over a period of two years. GIIC's letter of intent application is under consideration of the Government of India. This project is proposed to be located in the district of Kutch.

Printed by K. N. Subrahmanya at Economic Printers (owners: Southern Economist Private Limited) 107, Subedar Chatram Road, opp. Kino Theatre, Seshadripuram, Bangalore-560 020 published by Mrs. Susheela Subrahmanya at 106-108, Saleh Ahmed Building, Infantry Road, Bangalore-560 001 Editor: K. N. SUBRAHMANYA

SOUTHERN
ECONOMIST

October 1, 1981

CONTENTS

EDITORIAL
Beggar Thy Neighbour
CURRENT TOPICS 2
IMF Loan ; New Steel Plants ; Kudremukh ; Oil Discovery ; Mangalore Refinery ; Pepper Prices
Now for a Game of Snake and Ladders 5
By K. N. S.
GLASS HOUSE GOSSIP 7
SPECIAL ARTICLES 9
India's Energy Crisis: A Survey of Viable Alternatives
By Radha Raman Singh and Ajit Kumar Gaur
Urbanisation: Problems of Unplanned Growth in the Third World
By B. Ram Prasad and B. Samba Siva Rao
Conservation for the Survival of Agriculture
By B. V. Nimbkar
Criteria for Rehabilitating Sick Units through Bank Finance
By Shubhra Garg
BANKING WORLD 25
BOOK REVIEWS 26
CHAIRMAN'S SPEECH 27
The Sandur Manganese & Iron Ores
WORLD BANK REPORT 29
COMPANY NOTES 32
INCAB ; Sandur Manganese ; K. R. Mills ; Indian Rayon ; Tata Oil Mills

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone : 52330

Published on
1st and 15th of every month

Subscription Rates :
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Beggar Thy Neighbour

THE annual meetings of the World Bank and the International Monetary Fund, which are drawing to a close, do not have much to cheer the countries of the Third World. To be sure, there have been no major departures in the lending policy. The consensus, both in the Interim Committee and the Development Committee—the policy making bodies of IMF and the Bank respectively—does not indicate any major departure from *status quo*. All the same, if the developing nations get the impression that these two organisations are less sympathetic towards their needs, it is because of the pronouncements of U. S. spokesmen to the effect that they want both I.M.F. and the Bank to tighten their lending conditions.

This comes as an anticlimax to the Brandt Commission's recommendations which actually emphasise the need for a liberalisation of the terms under which IMF extends its assistance. The restrictionist policy advocated by the Reagan Administration, with its known private sector bias, if acted upon, will have the effect of imposing a moratorium on the Fund—no increase in the quotas of members, no recourse to borrowing from the financial markets and no further allocation of S.D.Rs. Considering that the United States, together with the like-minded countries of the West, have a dominant voice in the affairs of these organisations, the policies advocated by the Americans will get reflected in the approach of IMF and the World Bank.

While the anxiety of the United States to contain inflation is not difficult to understand, the medicine prescribed by the Reagan administration may worsen the disease. As is well known, in 1980, current account deficit of the non-oil developing countries has widened to $ 83 billion which may swell to over $ 100 billion this year. This is the result of (a) the steep rise in oil prices, (b) the failure of the industrialised countries to import more from the developing nations (c) the persisting adverse terms of trade and (d) the high interest rates. If as a result of the restrictive policy advocated by the Americans, the poorer nations decide to cut down their imports and trim their development programmes, the exports of the richer nations are bound to suffer.

The sixth IDA replenishment has materialised but there is uncertainty as to what will happen to the seventh replenishment. And what is available under IDA-6 will get diluted as a result of China, a new entrant, claiming a chunk of the IDA funds. Even the Bank's hard loans will get harder, with higher interest rates and more onerous terms of repayment. So far as IMF is concerned, there should be no major shift in its lending policy, if the Interim Committee's deliberations are any indication. With no prospect of IMF imparting more liquidity to the world monetary system through increased quotas, further SDR allocations and so on, the poorer nations will be left to their own devices for coping with their BOP deficits. With the hint of a return to gold standard, the world seems to have turned a full circle since the birth of the Bretton Woods institutions.

CURRENT TOPICS

Hope Deferred on IMF Loan

EXPECTATION that the $ 5.7 billion IMF loan will be wrapped up during the Fund-Bank annual meetings has not materialised. Those who are following the controversy surrounding the loan are not surprised at this delay. The next meeting of the IMF board of executive directors, scheduled for November, is likely to consider the loan proposal. At the moment, the IMF loan remains a cliff hanger. The Americans have already thrown a damper by sermonising to the Fund management that they have been lax in sanctioning loans and that the IMF terms are not stringent enough. Conditionality is attached to any extended facility provided by IMF and the terms normally imposed on the borrower are stringent enough. They are so stringent that newly-emerged developing countries habitually complain that IMF's policing of its loans often impinge on their sovereignty.

The U. S. criticism that the proposed IMF loan to India does not carry stiff conditions is a case of putting the cart before the horse. How can the Americans anticipate what conditions the Fund will impose on India when the borrower is not yet told of these conditions? Short of agreeing to a devaluation of the Rupee, the Government of India has been following a policy which, by and large, meets the requirements of IMF. Administered prices have been raised to cover costs, in the case of several goods, subsidies are sought to be reduced except in areas where such reductions affect the poor and the monetary policy is attuned to bringing down the price-level. If the trend of wholesale price index is any guide, inflation is getting back to a single digit. The Government has taken concerted measures to remove the deficiencies in the infrastructure and improve capacity utilisation in industries. The IMF management may not also have failed to take note of the measures adopted to step up exports and reduce the oil import bill. Recent reports of IMF and the World Bank testify to the resilience of the Indian economy and commend the measures taken by the Government to reduce the balance of payments deficit.

In the face of these facts, the Reagan Administration's reservations over the genuineness of India's case seem to be based more on political prejudices than on hard economic facts. In any event, New Delhi has not asked for a rescue operation. The loan has been sought at a time when India can bargain from a position of strength.

True, there has been some erosion in her foreign exchange reserves but, at the end of 1980-81, they still stood at a not-too-negligible level of Rs. 4,822 crores. The loan may not make a great difference to India's economic fortunes but it does help in the process of a structural re-adjustment in a less painful way. While one may hope that the loan will come through, denial of it under pressure from the United States will only strengthen India's resolve to deal with the balance of payments problem through her own efforts.

Planners' Thinking on New Steel Plants

IT is heartening that New Delhi is showing a genuine interest in setting up new steel plants, as is evident from SAIL's acceptance of MECON's project report on Vijayanagar plant and the reported award of a contract for setting up the Paradeep plant to the British consortium, Davy International. This should be viewed in the light of the widening gap between the emerging demand for and the existing rate of capacity creation in steel. While production has not gone much beyond 6 million tonnes, the demand is projected to go up to nearly 13 million tonnes by 1984-85 and to 18.4 million tonnes by 1989-90. It is being realised that this increase cannot be met wholly by expanding the existing steel plants. The plan document mentions about the construction of a second steel plant in Orissa, "if funding arrangements can be satisfactorily settled". This will be in addition to the Visakhapatnam plant for which a provision has been made for an outlay of Rs. 1,050 crores in the plan. Although the Paradeep project has not been specifically mentioned, the planners have ear-marked Rs. 50 crores for the "second new steel plant". The Vijayanagar project also finds mention with a paltry sum of Rs. 2 crores.

As matters stand, the Rs. 3,045 crore Vijayanagar project remains in suspended animation, with MECON having submitted its project report to the Steel Authority of India Limited. Although the local leaders are informally told that the project has been given the green signal, New Delhi's policy gyrations in the past engender caution. May be, if some Western steel plant builder comes forward with the offer of financial and technical collaboration, the Steel Ministry will not be too averse to commencing negotiations.

Meanwhile, it is good to know that the Government has awarded the Paradeep contract to Davy International. The project is expected to be financed through Eurodollar loans ($ 2.6 billion) and British grants ($ 220 million) to the extent of 60 per cent of the total cost. Of course, the rupee resources will be raised by the Centre. In the south, out of the three new projects favoured in the early seventies, namely, Vizag, Hospet and Salem, the first-named one has been taken up with Russian collaboration and the first stage of the Salem project has recently gone on stream. Like Kudremukh, Salem also represents a locational blunder since none of the factors favouring the location of an integrated steel plant exists there. Small wonder that its scope remains confined to producing stainless steel sheets from imported hot rolled material. With the cost of production at Salem higher than the landed cost of cold-rolled stainless steel sheets, there is no prospect of the Salem project avoiding a loss or making a profit in the foreseeable future.

As to its expansion into a major steel mill, there is hardly any prospect of utilising the low grade ore available in the nearby Kanjamalai hills. Alternatively, one can think of the Salem plant—assuming that an investment decision in its favour is taken — utilising either the Vijayanagar ore or the pellets from Kudremukh, if a pelletisation plant comes up at Mangalore. Eitherway, the cost of the final product at Salem will turn out to be uneconomic.

Kudremukh Hopes Revived?

MANY loose ends yet remain to be tied up before the Kudremukh Iron Ore Company—the public sector white elephant—can be put back on its feet. There are, indeed, some hopeful signs. The Prime Minister's recent visit to Indonesia has helped in clinching a deal—almost, one may add by way of caution—for the supply of about 1.8 million tonnes of Kudremukh ore pellets per year to that country. This will be a kind of barter deal under which Indonesia will supply sponge iron, presumably manufactured from out of Kudremukh pellets, to India. Whether the use of Indonesian sponge iron will offer any cost advantage in the manufacture of steel in India, one cannot be certain. One may hope that before striking the final deal, Steel Ministry will assess (a) the likely loss involved in supplying the Kudremukh pellets to Indonesia and (b) the CIF cost per tonne of importing sponge iron from that country.

Neither the Steel Ministry nor the company has explained to the public as to what extent, commitments of foreign parties—assuming continued inaction on the part of Iran—have been secured for the concentrate and the pellets. It is also not known whether the proposed 3 million tonne pelletisation plant to be set up at Mangalore will absorb the entire output of Kudremukh — some 7.5 million tonnes of concentrates per year. Based on what has appeared in the press, the tally can be up-dated as follows: Indonesia 1.8 million tonne pellets; Bahrein 1.52 million tonne concentrates; Rumania one million tonne concentrates; Czechoslovakia about 40,000 tonne concentrates (trial order). If one excludes pellets which will be available only after the Mangalore pelletisation plant gets ready, the assured demand for the Kudremukh ore forms but a small fraction of the project's capacity which can be close to 10 million tonnes per annum.

The poor capacity utilisation at Kudremukh will be evident when one considers that between August 1980, when the project was inaugurated and August 1981, Kudremukh had produced only 1.47 lakh tonnes of concentrates—understandable under the circumstances. However, the wild goose chase, involving a good deal of the tax payers' money, cannot go on for ever. If no definite assurance from Iran is forthcoming about the fulfilment of the remaining part of the Indo-Iranian contract—out of the contracted investment of Rs. 504 crores, Iran has put in only Rs. 204 crores—India should be free to opt out of the deal by citing the stiff penalty clauses binding on both sides. Talking in hypothetical terms, even if Iran today agrees to lift the concentrate, the penalty she has to pay for the delay on her side will nearly equal that country's total investment in the project.

This is not among the major worries facing KIOCL today. With hefty losses accumulating year after year and with the interest burden going up in the absence of the generation of any internal resources, it is wondered how long the pretence of keeping the project working can be maintained. One way of solving the riddle is to mothball the entire project for a period of, say, 5 years within which time it should be possible to set up a couple of coast-based sponge iron plants using Bombay High gas and Kudremukh concentrates.

Oil Discovery in Cauvery Basin

IT sounds too good to be true. Oil has been struck in the Cauvery basin. The announcement of the new oil find by ONGC last week has improved the prospects of India achieving self-sufficiency in oil in the not-too-distant future. What is remarkable about the discovery is the fact that oil has been struck in an area which has almost been written off by technologists. Only three weeks ago, ONGC had announced the discovery of the B 57 field, off Bombay High. The exact dimensions of Palk Straits structure are yet to be determined — the area is quite shallow, with only 9 metres of water — but there are indications of the availability of oil on a commercial scale.

This should give special impetus to ONGC to further explore the Godavari basin which, together with the Cauvery basin, forms the "Deccan trap". Oil has already been struck in the Godavari basin but further drilling has not be possible because of strong currents. Intensified exploration activity in the Bay of Bengal covering, in addition ro the Cauvery and the Godavari basins, the Mahanadi basin and the Andamans, should lead to some more significant discoveries. With the availability of close to a million tonnes from the new field, christened PH-9-1, the Madras Refinery's dependence on imported crude is likely to be reduced significantly. This is not a small gain.

Is Mangalore Losing Battle for Refinery?

NEW Delhi's reported move to shift the site of a new oil refinery from Mangalore in Karnataka to some other state has caused concern among those who have been championing this project. The logic of the move is not clear. The existing refinery capacity is barely sufficient to meet the present demand. With the commissioning of the Mathura refinery in 1982-83, the crude throughput is expected to reach 34 million tonnes. But by then, the demand is projected to go up to 39 million tonnes. The planners expect the demand for petroleum products to rise to 49 million tonnes by 1985-86 while the refining capacity, even after the completion of the expansion schemes, will have increased to only 41 million tonnes. It is to close this gap of some 8 to 9 million tonnes that new refineries have to be set up during the Sixth Plan.

At a symposium on "the need for a refinery and petrochemical complex in Karnataka" held in August, the then Union Minister for Petroleum, Mr. Veerendra Patil, fully agreed on the need for locating an oil refinery in Mangalore as that would attract other petroleum-based industries into the region. The Government's spokesmen have also confirmed, on several occasions, that a refinery would be located there. With the new oil finds in the Bombay High and the Ratnagiri region, and with the West Coast being closer to the Middle East than the other areas in the country, Mangalore, with its all-weather port, is the ideal site for locating a refinery. Mangalore is also a closer to a major consuming area, viz., Karnataka, which is being catered to from the refineries located at Madras and Bombay. A refinery at Mangalore will also be in a better position to supply feedstock to the fertiliser units that will be located in the state in the 80s. New Delhi owes it to the public in Karnataka to explain why, if at all, a decision has to be taken to shift the refinery site from Mangalore.

Pepper Regaining Its Strong Flavour

THE slump in the export prices of pepper, which has seriously affected the producer nations, seems to be tapering off. Lower production in Indonesia, coupled with the collective action of the International Pepper Community — some kind of a pepper OPEC — are mainly responsible for halting the downward drift which has been in evidence for well over an year. At the recent Bali meeting of the Community, the leading producers — India, Indonesia, Malaysia and Brazil — have proposed floor prices linked to quality. The minimum export price for Indian Pepper is 73 cents a lb., for Indonesian pepper 72 cents and for the Malaysian pepper 70 cents. It may be recalled that, at the Mysore meeting of the Community held in May, floor prices had been fixed at 62 cents for India, 60 cents for Indonesia and 58 cents for Malaysia. With Brazil too joining the Community, there are hopes that the world pepper organisation will be able to control the prices in a manner that prevents a sharp decline.

World production was estimated at 1.40 lakh tonnes of which India's share is 25,000 to 30,000 tonnes. This is expected to go up to 40,000 tonnes by 1985 and 50,000 tonnes by 1990. Like other pepper exporting countries, India too had to face stiff competition from Brazil which "dumped" as much as 32,000 tonnes on a weak market last year. This has led to the country being pushed out of the American and West European markets and its concentration on the eastern bloc. Efforts should now be made to regain the lost markets. India's task will now be easier when one considers that (a) Indian pepper is of the highest quality and (b) there is less competition from Brazil.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription:
Rs. 50 : Single Copy Rs. 2-25

Now for a Game of Snake and Ladders

By **K. N. S.**

IT is unusual for an economic periodical to let the spotlight stay on a scandal for more than a fortnight. I am referring to the Antulay affair on which I wrote a 2-page piece in the last issue, viz., September 15. Despite the fact that scandal-mongering is not my cup of tea, I feel constrained to touch upon some of the related issues which remain uncovered or not covered adequately.

Overplayed ?

A good number of my fellow-Indians think that the Antulay issue is overplayed and, as such, it may be worthwhile to shift the spotlight to something else. It is just that they see nothing unusual with the seven trusts that the Maharashtra Chief Minister created in his personal capacity and trundled them along as virtually public institutions. The familiar refrain is: Most politicians with Midas touch do it and Mr. Antulay's trusts are patterned on those that had been set up by his predecessors and contemporaries in Maharashtra and elsewhere. I do not have to repeat the names of the trusts so created and put down the amounts collected for them. Newspapers and periodicals have published these deiails. So why pick on poor Mr. Antulay?

Even the Prime Minister, Mrs. Indira Gandhi, whose name was, or was sought to be, associated with one of these controversial trusts, said while addressing the meeting of the Congress (I) Parliamentary Party on September 18 that corruption was a global phenomenon and India too had its share. Since she was speaking immediately after the conclusion of the *monsoon* session of Parliament which was preoccupied almost wholly with the Antulay affair, it may be inferred that she had this in mind when she made the pithy statement. This is another way of saying that no vice is the exclusive monopoly of India. That way, prostitution is a global phenomenon, political murders are a global phenomenon, people in high place uttering falsehood is a global phenomenon, drunkeness is a global phenomenon, juvenile delinquency is a global phenomenon, child abuse is a global phenomenon, terrorist acts are a global phenomenon—well I can go on endlessly with the recital until your head reels. I may also recall that when the country was in the grip of serious inflation in 1974-75, Mrs. Gandhi brushed away the frequent talk of inflation by characterising it as "a global phenomenon," much to the vicious delight of cartoonists and political commentators.

Wrong Inference

Such *ex cathedra* statements tend to give the impression to general public that the Government is not serious about dealing with the evils that are weakening the fabric of our society. The fact that an evil practice is prevalent in other countries should in no way detract from the seriousness of the problem here, in India. Corruption in some of the African countries could be much worse than in India. If one goes by the reports appearing in the foreign press, corruption remains a way of life in the Philippines and Indonesia. One can write volumes on the devious methods that businessmen, politicians and bureaucrats in these countries adopt to enrich themselves at the cost of the society. So what?

The point I would like to emphasise is that any Government worth its salt cannot take shelter under the specious plea that one need not make a frontal assault on a problem simply because the problem cuts across national boundaries. What astounds one is an attitude of acceptance (shades of *karma* theory) which is widely prevalent in this country. Mrs. Gandhi is perfectly entitled to say, as she did at the meeting of the Congress Parliamentary Party, that there was far more corruption during the Janata regime than now. This statement too belongs to the *genre* of the one to which I alluded a moment earlier. Even granting that corruption was more rampant during the Janata regime (why flog a dead horse, any way?) than in the present Congress (I) regime, why should Congressmen outbid the Janata people in perpetuating an abhorrent evil?

Going back a little further, one can even say that, at certain levels, there was less of curruption during Mrs. Gandhi's emergency, thanks to enactments like MISA, COFEPOSA and so on, than either during the pre-1975 period or during the Janata rule. But at certain other levels, there was more of corruption, as is evident from the findings of (a) the White Paper on the Misuse of Mass Media, (b) the report of the Gupta Commission on Maruti affairs and (c) the Shah Commission's report. The fact that the findings of these committees and commissions did not find acceptance by the successor Government does not make them any less authentic.

Hidden Skeletons

A point that should not be missed by the student of our social and political scene is that the pigeon-holing of the findings contained in these reports by the Government which came to power in 1980 did not cause a public outcry. The quaint, and may I add perverse, logic behind this revevsal seems to be that the leader who secures the popular mandate to rule the country cannot be held responsible for the wrongs committed in his previous incarnation. The

(Contd. on next page)

Now for a Game (Continued)

country has reached a stage in the process of eroding moral values when a criminal, by the mere fact of his having won an election, will cease to be a criminal.

Be that as it may, the press and the general public have two options before them: They can lose interest in the alleged misdeeds of Mr. Antulay on the plea that they are part of the general social malaise that one sees in the country and abroad. The Prime Minister has already given a hint to this effect by stating that corruption is, after all, a global phenomenon. The other alternative is to take up the Antulay affair as the beginning of a painful cleansing operation. Personally, I am in favour of the hard option. That, in fact, is the theme of this article.

Soft Option

But I respect the views of those who choose the soft option. This is because I attach great importance to political stability, provided the price the nation has to pay for it is not unduly high. The soft option suits the ruling party and a section of the opposition. Under this scenario, the sequence of events will be something like this: Mrs. Gandhi, after her tour of South East Asia, will let Mr. Antulay resign after making sure that he will divest himself of the control of the trusts that he has created — some seven of them. Mr. Antulay, like Dr. Chenna Reddy, will be advised to lie low for some time. Meanwhile, a new Chief Minister will be chosen to head the Government of Maharashtra. The amounts collected so far by Mr. Antulay will be partly paid back to the donors where it is possible to do so, as in the case of sugar cooperatives. The rest will be credited into an existing Government-managed relief agency.

Such an approach will suit many of the opposition stalwarts who may have to do some explaining if the Government chooses to dig into their past. This is possible only if (a) the anti-Antulay crusaders agree to keep the Prime Minister above the din of controversy and (b) Mr. Antulay can manage to extricate himself from his present unenviable perch. The fact is, Mr. Antulay can be hauled up before the courts not merely for the alleged misuse of his powers as the Chief Minister but on many other counts. As Mr. Arun Shourie (*Indian Express*, September 24) and Mr. A. G. Noorani (*Indian Express*, September 22) have painstakingly shown in their incisive articles, the Chief Minister's fund-collecting activities attract several provisions of the Indian Penal Code, the Code of Civil Procedure, the Prevention of Corruption Act, the Essential commodities Act and so forth.

Furthermore, the public will not have failed to take note of the fairly well–documented reports on the Antulay affair appearing in, among others, *India Today* (October 1) and *Sunday* (September 20). I do not see how, in the face of such voluminous evidence, Mrs. Gandhi can work on the soft option. I see in the Antulay scandal the making of a first-rate crisis more or less similar to the Watergate affair that rocked the United States many years ago. This is because, for one thing, the soft option may become unworkable and, for another, Mrs. Gandhi will have to remove Mr. Antulay from the chief ministership. After replacing him, she may seek to administer to the opposition a dose of its own medicine.

Retaliation

This may mean the reopening of several cases pertaining to the opposition leaders. She will make them run the gauntelet. This is evident from (a) the manner in which facts are being collected about the affairs of other trusts in Maharashtra and elsewhere and (b) the probe instituted into the affairs of the Gandhi Peace Foundation, which remains the sanctuary of some of Mrs. Gandhi's critics. In her running feud with the opposition, the Antulay dismissal, if and when that happens, will be nothing more than a tactical retreat. The battle of wits and the mutual snipings will go on.

What if Mrs. Gandhi undergoes a metamorphosis — an unlikely possibility — and, instead of remaining an apologist for *status quo*, takes up the opposition's cause? I, for one, will welcome such a happy denouement. What will happen, then? Under this highly improbable scenario, she will strike a somewhat non-partisan attitude *vis a vis* the Antulay affair, go through the motions of punishing the wrong-doers in both the camps and finally step down as Prime Minister, possibly to become the Union President when Mr. Sanjeeva Reddy's time runs out. While paving the way for such a transition, Mrs. Gandhi will have made sure that her son, Rajiv Gandhi, is assured of a position in the new configuaration.

Seize Mentality

But things may not quite work out that way. As the opposition gleefully drives one nail after another into the coffin of the Antulay leadership and as Mrs. Gandhi's detractors in othes states (like Jagannath Mishra's Bihar, Gundu Rao's Karnataka and Anjaiah's Andhra Pradesh) make renewed attempts to storm the citadels of power, a Prime Minister who is gripped by the seize mentality (remember June 1975) may again resort to unusual measures to silence a noisy opposition and a troublesome press. To be sure, it will not be another emergency. It will be something different—and, may be, something worse.

Glass House Gossip

BETWEEN an erratic *monsoon* and a poor *monsoon*, I choose an erratic *monsoon* for the simple reason that excessive, irregularly-spaced rains will do less damage to the crops than a long dry spell. This, I know, is an arguable point. I am happy because the reservoirs in Karnataka — Linganamakki in particular — are full, obviating the need for drastic power cuts in the summer months. But those who have faced the fury of the floods may not entirely agree with me. If I were a traveller from Madras to Bangalore on the day the rains washed away part of the railway track near Bangarpet, I would have cursed the rain gods. Similarly, if I were in Bombay on September 23 or 24, I would have done the same thing. As many as 18 persons are reported to have perished in the Bombay deluge.

The worst sufferers of such a deluge are the slum dwellers whose thatched huts become a kind of stationary house boats in the process of sinking. The average Bombayite who is inured to a settled routine, catching a south-bound train at 8.45 or 9 in the morning and returning in a north-bound train at 5-30 or 6 in the evening, an incessant downpour becomes a great bore. Not that the office objects to his absence but the thought of staying home with nothing to do and nowhere to go is not a particularly stimulating one, even for newly-weds.

The flash floods that swept over Rajasthan, of course, stand in a different category. Such a deluge seldom occurs in a desert state. All in all, I stick to my view that excessive rains are to be prefered to no rain at all. Those who know what a drought means to the rural folk do not bear the thought of witnessing the long trek of people —men, women and children—who move from place to place in search of food for themselves and fodder for their cattle. The demoralisation accompanying such a migration should be seen to be believed. The deluge too leaves a trail of destruction but when the rain clouds move away, the sun shines brightly on a rainswept landscape and in the cities and towns, the roads wear a clean look, after the rains had done the job of a million scavengers—and an infinitely better job at that.

Bangalore, because of its topography, has seldom suffered because of a heavy downpour. It does rain here but the rain water gets drained away in hours, except for some low lying areas where the drains, which are designed to carry only waste water, often overflow, bringing the stench close to the doors. From the way it mostly rains in the nights, it looks as if the Bangalorean has struck a secret deal with the rain god. Shops selling umbrellas and rain coats rarely do good business in Bangalore where the majority do not bother to carry them even in the months of July, August and September. They seem to have learned the art of slipping through the showers.

□ □ □

COLLEGE managements who have been thriving on capitation fees are understandably upset over the decision of the Government of Karnataka to do away with capitation fees by stages. Since the High Court has stayed the operation of the Government's order, the *status quo* will continue during the current academic year. The egalitarian instincts of the Chief Minister, Mr. R. Gundu Rao, are suspect because it was he who gave the green signal for the opening of quite a few capitation-fee based colleges recently. It is just that the State Government is under pressure from the Centre to abolish the system.

I am opposed to the system tooth and nail but I see the point of those who support it. Their argument is that if rich parents can afford to "buy" seats for their children in medical or engineering colleges, why should any one object to it? The going rate for a seat in a medical college is, I am told, Rs. 69,000 but it is much less in engineering colleges. Students from neighbouring countries pay a higher capitation fee. I have nothing against young people buying a degree in medicine or engineering but my reason for opposing the system is that it places the average middle class Indian student at a disadvantage *vis a vis* his better-off colleague.

With the capitation fee wallahs preempting seats to the extent of 40 or 45 per cent and with the scheduled castes and scheduled tribes monopolising a sizable chunk of the remaining seats, the chances of really deserving students who do not come under these categories are rendered slim. Those who score exceptionally high marks can still manage to secure a seat but their percentage remains very small. I have nothing against Harijan and Girijan students enjoying some leverage in securing admissions in medical and engineering colleges but I am totally opposed to a system which enables the children of rich parents to preempt the seats by paying a hefty capitation fee.

I object to this skewed system for another sociological reason. From what I have observed of the working of our society, I find a causal connection between the payment of the capitation fee and the taking of the dowry. The simple logic is that if a boy has spent a lakh of rupees on buying a medical degree, he should recoup it from the parents of his prospective bride. The two systems — the capitation levy system and the dowry system — seem to reinforce each other. There can thus be no two opinions on the need to abolish the system of capitation fees. The Gundu Rao Government should not have any second thoughts on this question.

* * *

THE distinction made between authoritarianism and totalitarianism in his recent article by Michael Lavin (*Newsweek*, July 27) seems to provide a dubious moral basis for authoritarian regimes. Despite the apparent neatness of Mr. Levin's logic, I find the juxtaposition of the two evils somewhat incongruous. The message seems to be that if the choice is between authoritarianism and totalitarianism, the people of a country can opt for the lesser evil. My caveat is: why should political commentators preach the virtues of the lesser evil? Mr. Levin's views are suspect because they seem to be tailor-made to suit President Reagan's policy which supports any regime that opposes the Russians. There can be no mistaking the object of his attack since Russia is the only authentic totalitarian system, the east European countries being a pale shadow of it.

I have no quarrel at all with Mr. Levin's essay, "How to Tell Bad from Worse". If asked to write on the difference between authoritarianism and totalitarianism, I would have written along the same lines as Mr. Levin has done but I would have added, in conclusion, that mankind need not choose the lesser evil simply because it is less monstrous. Nero is not Stalin, I agree, but why should Mr. Levin force on me a Nero who fiddles when Rome burns? Why should I accept a capricious tyrant simply because some other tyrant is more ruthless? As Mr. Levin puts it: "A authoritarian regime is the rule of a strong man or a clique that forbids all activities that threaten its position, such as a critical press or an opposition party. It punishes resistance ruthlessly". He contrasts this with the totalitarian regime which "wants to control everything — not just political power but all aspects of its subjects' lives". And so on, and on. Mr. Levin's logic is unexceptionable.

The distinction, however, is pointless because authoritarianism is a system which is in a state of constant flux. The main consideration being the survival of the strong man or the ruling junta, it can degenerate into totalitarianism or worse, depending on the intensity of the resistance to its rule. Since, in Mr. Levin's vocabulary, communism and totalitarianism are synonymous, I can as well tell him why the communist system appeals to large masses of people despite its oppressive nature. It is simply that communism is less inequitous and more egalitarian than any system that mankind has evolved. But I do concede that totalitarianism represents the ugly face of communism. If it has another, benign face, it is seldom seen.

Be that as it may, I do not quite see why Mr. Levin should take the trouble to juxtapose these two vicious systems. Any one who is intellectually honest cannot persuade himself to support President Reagan's policies in El Salvador, Argentina, Pakistan, The Philippines and, I may add, Israel which is a unique case. He supports authoritarian regimes in these countries — Israel excepted — not because he does not see any alternative to these regimes but because they fit into his global strategy of opposing Russia's expansionism. Mr. Levin may not be unaware of this fact.

To Reagan, Sadat's authoritarianism is acceptable because Sadat is opposed to the Russians. On the other hand, Kaddafi's authoritarianism is anathema because he happens to be the friend of Russians. He is happy with dictator Zia's rule in Pakistan, despite its blood-stained record of human rights suppression because America wants to checkmate Russia's expansionism in that part of the world. On the other hand, India, which has a tolerably good record as a democracy—one of the few surviving democracies in the Third World—is viewed as the arch enemy simply because she wants to maintain equidistance between the two super powers. Racist South Africa is viewed as a friend while resurgent Angola is viewed as the enemy for reasons that should be obvious to all intelligent people.

President Regan's policy, which lacks moral ballast, has disastrous implications for World peace. His global strategy which makes no distinction between authoritarian regimes and democracies tends to weaken the cause which is dear to the heart of most Americans. Mr. Jimmy Carter, despite his poor record as the leader of the western alliance, was able to apply the brake on human rights violations in Latin America and elsewhere. In contrast, President Reagan's policies seem to turn a Nelson's eye to the atrocities committed by authoritarian rulers all over the world. This is bound to trigger an anti-American backlash sooner or later.

— **Plebeian**

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

special articles

India's Energy Crisis: A Survey of Viable Alternatives

By **Radha Raman Singh** *and* **Ajit Kumar Gaur** *

The oil crisis of the seventies has thrown into sharp focus the need for evolving a viable energy policy which, while bringing about a saving in the use of hydrocarbon, shifts the emphasis to the use of sources which are less scarce. In India, there is need to increase the use of coal, which is available in plenty, and to rationalise the use of traditional fuels in the domestic sector. In this article, the authors survey the energy scene and suggest possible lines of action for reducing the country's dependence on imported oil.

CRISIS in the field of energy resources simply means less availability of energy in comparison to demand. Energy is a vital prerequisite for economic development and growth. Since October 1973, when the organisation of Petroleum Exporting Countries (OPEC) increased the crude oil prices, the energy crisis has engulfed India and with the alarming uncertainties in energy supplies and the significant time lag in the development of new and relatively untapped sources, the situation has developed into a major crisis. The situation requires a radically new set of energy policies for developing indigenous viable sources of energy so as to reduce the country's dependence on imports. This paper deals with the problem keeping in view the fact that in a country like India, where income inequalities are also reflected in the low *per capita* energy consumption, the new energy crisis mainly threatens the consumption-oriented life style of an affluent *elite* and has far less impact on the rural poor who are condemned to survive on zero private cost non-commercial energy and have been in the grip of a grave energy crisis from a period long before the 'new energy crisis began'[1]

The principal sources of energy in India can be divided into two broad categories: commercial energy and non-commercial energy. The former includes coal, crude oil, natural gas, nuclear energy and electricity (hydro and thermal). The latter includes firewood, animal waste like dung, vegetable waste, animal power, wind power and human physical power. There are yet other forms of energy which are in the exploratory stage. These are solar energy, geothermal energy, tidal power and wind power.

In India, the share of commercial energy to the total energy in 1953-54 was 32 per cent which rose to 41 per cent in 1960-61, 47 per cent in 1965-66, 50 per cent in 1968-69, 52 per cent in 1970-71[2] and 55 per cent in 1976-77.[3] In the case of non-commercial energy, the per-centage share has, however, decreased from 68 to 45 per cent during the same period.[4] This can be attributed, on the one hand, to rising oil imports and on the other, a high degree of coal utilisation and extraction of hydro and thermal power potential which is evidently the result of the process of development and industrialisation.

Among the commercial sources of energy, the main sources are coal, petroleum, electricity and nuclear power. Coal remains the prime source of commercial energy and after the sharp increase in oil prices in 1973-74, it was recognised that coal will continue to be the prime source of energy at least till the turn of the century.[5] Coal production in India increased at the rate of only 3.7 per cent per annum between 1951 and 1973 but it shot up from 77 million tonnes in 1973 to 96 million tonnes in 1975 or 25 per cent in two years.[6] However, coal production stagnated around 100-101 million tonnes between 1975-76 and 1978-79 but moved up modestly to 103.77 million tonnes in 1979-80. Provisional estimate for 1980-81 is around 112 million tonnes.[7] India's coal reserves, which ranked fifth in the world with a proven reserve of 56,799 million tonnes and technically and economically recoverable reserves of the order of 33,700 million tonnes[8] are estimated to last over a 100 years at three times the present level of production. Yet, output of coal has failed to respond to the urgency of replasing oil as a major source of commercial energy. However, the geographical distribution of these coal reserves is extremely uneven with three-fourths of the total reserves concentrated in a few districts in Bihar, Orissa and West Bengal which involves huge transportation cost in distribution.

During the last three decades, there has been a tremendous increase in oil consumption in the country, the approximate break up of the total commercial energy consumption being: oil 50 per cent; coal 25 per cent and electricity 25 per cent[9] in 1975-76 as against 40 per cent, 48 per cent and 13 per cent respectively in 1953-54.[10] Out of the total oil consumption in India, approximately 50 per cent is used by transport, 30 per cent in domestic consumption, 10 per cent in industry and 5 per cent in agriculture.

---

* Dr. Radha Raman Singh teaches in the University Department of Economics, Bihar University, Muzaffarpur (Bihar). Mr. Ajit Kumar Gaur is Research Scholar in the same Department.

But only 33 per cent of the total oil consumption is met by domestic production and the balance of 67 per cent is met through imports. Consequently, there has been an unprecedented increase in the oil import bill which increased from Rs. 52 crores in 1950 to Rs. 1,316 crores in 1976-77[11] and in 1980-81 it would be around 5,000 crores, i.e., nearly 50 per cent of the total import bill.[12] The share of oil import bill to total import bill of the country was 8.3 per cent in 1970, 10.1 per cent in 1971, 11.7 per cent in 1972 and 14.9 per cent in 1973[13] but abruptly increased after October 1973 and shared about 35 per cent of the total import bill in 1976-77 and approximately 50 per cent in 1980-81.

The switch-over from coal to oil has marked a new shift in the field of energy utilisation and origins of the recent Indian energy crisis lie in the role that oil currenty plays on the Indian energy scene.[14] To reduce the dependence on imports, it is felt necessary to intensify efforts to augment indigenous oil resources. Through the efforts of the Oil and Natural Gas Commission and Oil India, oil production, which stood at a meagre 0.51 million tonnes in 1961, increased to about 5.6 million tonnes by the end of the Third Plan, 7.9 million tonnes by the end of the Fourth Plân and to 10.8 million tonnes in 1977-78[15] but even this is equivalent to about 40 per cent of the present oil consumption.

Power is also one of the important sources of commercial energy and has shown considerable, though not sufficient, progress during Plan period. The successive Plans with large outlays on power development have added substantial generating capacity. While the outlay on power development increased from Rs. 302 crores in the First Plan to Rs. 2,190 crores in the Fifth Plan.[16] the Sixth Five Year Plan (1980-85) has the estimate of an outlay of Rs. 19,265 crores. The installed generating capacity increased from 1,713 mW in December 1950 to as much as 26,682 mW in 1978-79 that is to say by a phenomenal 1,457 per cent in 28 years or an annual average growth rate of 10.3 per cent (compound).[17] It is expected to go up to 51,192 mW by 1985. Despite this impressive growth and the massive investments made, power shortages have become endemic over the past decade or more. The shortages have ranged between 10 to 15 per cent during the 1970s according to the Central Electricity Authority while according to a recent World Bank report,[18] the shortages during 1974-75 and 1977-78, have been more acute.

Through the fifties and much of the sixties, the record of performance of the power sector was comparatively good as the percentage shortfall in the installed capacity utilisation was 15 per cent during 1951-56, 36 per cent during 1956-66 and 24 per cent during 1966-69[19] but in the seventies, the shortfall in capacity utilisation was over 50 per cent, and transmission losses around 20 per cent..[20] Hydel power accounts for 43 per cent of the total power generation.[21] Only about 20 per cent of India‘s hydro-electric potential has been harnessed so far. Another 30 per cent, lying in parts of Assam and north eastern India, are not easily accessible.[22] Many of the existing hydel stations are under-utilised because only 3,800 kwH of energy are generated

TABLE-1

COMMERCIAL ENERGY CONSUMPTION IN INDIA IN 1970-71 BY SECTOR AND ENERGY SOURCE

(Metric tonnes Coal equivalent and per cent)

	Coal		Oil Products		Electricity		Total	
Sector	MTCE	%	MTCE	%	MTCE	%	MTCE	%
Mining & manufacturing	31.07	23.9	3.35	2.6	34.35	26.4	68.77	52.9
Transport	15.91	12.3	14.53	11.2	1.43	1.1	31.87	24.5
Domestic	4.07	3.1	8.49	6.5	3.83	3.0	16.39	12.6
Agriculture	0.0	0.0	1.39	1.1	4.54	3.5	5.93	4.6
Commercial, Government and other	0.30	0.2	2.14	1.7	4.50	3.5	6.94	5.3
Total	51.35	39.5	29.90	23.0	48.65	37.5	129.90	100.0

Source: Government of India, Report of the Fuel Policy Committee, 1974, p. 130.

TABLE-2

TOTAL AND SOURCE-WISE DOMESTIC ENERGY CONSUMPTION

(In MTCR)*

Source	1953-54	1970-71	1976-77**
A. Commercial:			
(1) Coal	2.20	4.07	5.6
(2) Oil	9.79	27.58	36.4
(3) Electricity	0.70	3.83	6.4
Sub-total (1, 2, 3)	12.69	35.48	48.4
B. Non-commercial***:			
(4) Firewood	82.2	116.62	145.0
(5) Dung	18.6	26.91	30.0
(6) Agricultural Waste	25.1	35.88	45.0
Sub-total (4, 5, 6)	125.9	179.41	220.0
C. Total	139.59	214.89	268.4

Source: Vasant Gumaste, "Domestic Energy Needs: Problems and Prospects", The Economic Times, Special Supplement on Coal and Energy, Calcutta, March 22, 1981, p. 8.

* MTCR: Million Tonnes of Coal Replacement.

** 1976-77: Figures are Provisional Estimates.

*** Entire non-commercial energy is assumed to be consumed in the domestic sector.

Note: Conversion of different fuels into MTCR as under:

1 Million Tonne of Oil = 8.3 MTCR;
1 M. T. of dung = 0.40 MTCR;
1 BKWH of electricity = 10 MTCR;
1 MT of agricultnral waste = 0.95 MTCR;
1 MT of firewood = 0.96 MTCR.

per kW of installed capacity in comparison with a feasible 5,000 kwH per kW of installed capacity. Also due to transmission losses which are around 20 per cent, power consumption is less than the power generated. Thus, the development of hydro-electric potential in India has proceeded rather slowly.

Nuclear power is not an important part of the power picture in India as at present. Out of the total electricity generated by public utilities of 89.2 billion kwH, only 4 per cent is derived from nuclear power and the estimate upto 1982-83 is also of only 4 per cent of the total electricity generated. In so far as nuclear energy is concerned,[23] the over-riding problem is the non-availability of the nuclear raw material, viz., Uranium. Further, huge investments are required for obtaining nuclear energy. Technical and engineering skills of the highest order are required for handling this source of energy. It is not yet possible to generate nuclear energy on a decentralised basis.

Although India is richly endowed with Thorium, which is thought to be an alternative raw material for nuclear power generation, the inherent dangers of radiation of air and water pollution are well-known. Thus, nuclear energy is not going to play an important role in the energy sector of the country in the near future and the full potential of India's Thorium reserves, and the time by which it will be possible to begin exploiting them seriously, still remain to be established.[24] It will not play an important part in the energy economy until at least the turn of the century.[25]

Solar energy is the most obvious alternative energy source, particularly in a sun drenched land like India but it is yet to be proved as an alternative, commercially viable source. Conversion of solar energy into electricity can be achieved with present techniques only at very high cost; and a substantial fall in costs, if it proves to be attainable, is like to require a long period of further research and development work.[26] Same is true of tidal and geothermal resources.

Non-commercial energy resources in India consist primarily of firewood, cow-dung and vegetable wastes and account for about 50 per cent of the total energy consumption, as stated earlier. The composition of non-commercial sources is roughly as follows: firewood 65 cent, dung-cakes 15 per cent and agricultural wastes 20 per cent.[27] Since the rural areas still account for almost 80 per cent of the total population of India, possibly 40 per cent of total energy consumption, and probably more than 80 per cent of the consumption of non-commercial energy, energy in rural areas and non-commercial sources of energy becomes a very important aspect, while discussing the energy problem.

About 70 to 80 per cent of the Indian population. living particularly in rural areas, just cannot afford to rely on commercial energy sources owing to the low average *per capita* consumption expenditure. Therefore, they have no option other than surviving on non-agricultural energy sources which is available at 'zero' private cost to the consumer. This section of the population has not been affected by the post-1973 energy crisis, except in so fas as the prices of mass consumption commodities has increased due to the components of commercial energy in them. In other words, the oil price hike is not a problem of immediate concern to the vast majority of the Indian people and thus, the present energy crisis should explicitly be described as a commercial energy crisis or oil crisis which is of vital concern to the affluent strata of the population.

If we look into the sector-wise distribution of commercial energy in India, it becomes apparent, as shown in Table-1, that the biggest consumer of commercial energy is the mining and manufacturing sector which, along with the transport sector accounts for 77 per cent of the total energy consumption. As much as 12.6 per cent was consumed in domestic sectors while only 4.6 der cent in the agricultural sector.

Domestic energy needs do not figure very prominently in the omnibus term, "energy crisis", although domestic energy consumption is more than half of the total energy consumption.[28] The present level of *per capita* domestic energy consumption in India is around 3,000 K. Cal. per day in rural areas and 10,500 K. Cal. per day in urban areas. But, as *per capita* income increases, the consumption of energy is bound to increase. Indeed the income-elasticity of demand for energy is fairly high. For instance, our average annual rate of growth of real GNP between 1960-65 was 3.3 per cent while the annual rate of growth of energy consumption during the same period was 7 per cent giving an income elasticity of demand for energy at 2.12. In addition to this, increasing pressure of population growth pushes up the demand for energy. While taking account of the domestic energy consumption pattern, the picture that emerges, as in the Table 2, indicates that non-commercial sources of energy account for a major part of domestic energy. Although, as per the 18th round of National Sample Survey, commercial fuels have grown at a faster rate than non-commercial ones, being 5.6 per cent per annum as against around 1 per cent growth of the non-commercial energy consumption in the domestic sector. But still, the non-commercial sources of energy play a leading role in the domestic energy consumption. Similarly, rural and urban areas present strikingly contrasting picture in terms of proportion of energy consumption from different sources. According to a NCAER Survey on Domestic Energy Consumption, while non-commercial energy constitutes 91.1 per cent of the total energy consumed in rural areas, commercial energy forms 66 per cent of the total domestic energy consumption in urban areas. Furthermore, commercial fuels account for a larger proportion of total domestic energy needs in the upper expenditure classes than in the lower ones. For instance, the 18th round of NSS Survey reveals that at the lowest expenditure class of Rs. 1.50 per month, the non-commercial fuels account for almost the entire energy consumption consisting of Kerosene used for lighting purposes. While on the other side, commercial sources are the major fuels. The poorer sections of the population depend entirely on the non-commercial sources of energy because the private cost of these fuels is negligible.

But whether urban or rural, whether lower or upper expenditure class, energy crisss has affected us all, in one way or the other. For urban people, the effect has been direct and harsh as the price index of the fuels had gone up to 295 5 (1970-71 = 100) at the beginning of 1980 when the general price index was 211.8. But the resultant enrgy crisis of oil price hike has apparently no relation with the rural households depending entirely on the non-commercial sources of energy. But the rural households have also been hit hard by the energy crisis directly or indirectly. Along with the oil crisis and increase in price, the cost of essential commodities produced with the help of this source of energy has risen affecting indirectly the poor section of the population. Similarly the scarce availability of firewood in comparison to demand as in 1978-79 firewood consumption was of about 132 million tonnes as against the availability of only 35 million tonnes [29] has also pushed up the price of firewood with the result that the demand now has been diverted to the close substitute animal dung. The rise in the price of Kerosene has added fuel to the fire because this is widely used by the rural and poor sections of society as fuel for lighting. Thus, the energy crisis among the poor sections of society, particularly the rural poor, is the direct off-shoot of the world-wide energy crisis.

The energy crisis, which has harshly affected the Indian *elite*, particularly after the oil price hike, needs a critical examination of the pattern of energy developments of the past 30 years. About 70 per cent of the electrical energy in India went for industry in cities and towns and 15 per cent for other categories of urban consumption (domestic and public utilities), but only 12 per cent was distributed for rural use.[30] To increase the index of industrial production[31] from 100 to 180 between 1960-61 and 1970-71, the oil consumption increased more than two-fold from 6.02 million tonnes to 15.31 million tonnes and the total energy consumption had to be increased from 101.2 to 197.19 million tonnes of coal replacement. This trend of energy consumption has continued more or less in the same direction and for increasing industrial production, the rate of oil consumption has increased. In the absence of adequate domestic oil production, the crisis calls for consideration of various alternative measures.

The shortage of electricity has also been one of the reasons for energy crisis. The rapid industrialisation and development of irrigation led to the demand for energy far in excess of supply. The consumption of electricity increased at a higher compound rate of 1 3 per cent per annum during the 25 year period from 1954 to 1977 while the gap between the generation capacity and actual consumption has been widening Plan after Plan reaching a huge 54.55 per cent in the 4th and 5th Five Year Plans. The major cause of this shortfall was inadequate planning, cost escalations and inordinate delays in implementation. The power resource which, if developed adequately may prove as an alternative for reducing consumption of oil, has proved ineffective causing the increasing consumption of oil as well as its price hike.

The modern technology adopted in the field of production whether industrial or agricultural, is highly energy-intensive. This has led to an increase in the consumption of commercial forms of energy. Development leads to increased urbanisation, increased demand for communication and transportation, high standard of living and need for additional electric and oil energy for domestic consumption. Demonstration effect also plays a pivotal role in moulding the life style of the people, especially those belonging to the *elite* classes who can afford to use luxury items which are highly energy intensive.

Among other factors conducive to the growth of energy crisis, particularly in the non-commercial energy sectors, greater dependence on firewood has resulted in deforestation through unauthorised cutting of trees as well as, the use of dung for domestic uses like cooking. The production of wood in India is a bare 0.3 cubic metres per hectare per annum as compared to 2 cubic metres in the U. K. and 4 cubic metres in the Federal Republic of Germany.[32] The firewood scarcity leads to an increased diversion towards dung cake as a substitute source due to its availability at 'zero' private cost to the poor strata of people particularly in the rural areas. But the use of cow-dung as a fuel for cooking purposes deprives the farm land of its manures and organic matters. According to the National Commission on Agriculture, "The use of cow-dung as a source of non-commercial fuel is virturlly a crime".

Thus, the energy crisis precipitated by the sharp increase in oil prices in 1973-74 is mainly due to greater dependence on commercial energy, particularly on petroleum products, inadequate supply of energy from other sources of commercial energy, change in the life-style of the affluent classes of the society utilising more the commercial energy particularly electricity and petroleum products, and commercial energy intensive modern technologies of production adopted in industry and agriculture. But the poorer sections of the population largely depending upon the non-commercial sources of energy are also not out of the range of the crisis. The increased prices of Kerosene and firewood and their inadequate availability resulting in to use of dung—a very useful manure for the farm sector—for cooking purposes, have intensified the crisis.

II

The Government's activity in the energy sector during the past 30 years provides a useful background for the analysis of future energy policy. During the first four Plans, progress in electric power development consistently fell behind targets by large margins. Coal production lagged somewhat behind the targets but not so badly except with a major problem of short supply of coking coal. Oil and natural gas development proceeded at a very slow pace until the Fourth Plan but since 1974, due to the oil price hike and tremendous drain on foreign exchange earnings, oil exploration and development has been stepped up. Nuclear energy is costly and does not suit the Indian economic conditions. Development of other sources of energy resources such as bio-gas and solar energy was limited to research and development activity or limited pilot scale applications.[33]

Therefore, the energy crisis precipitated by the sharp increase in oil prices in 1973-74 brought to the fore the imperative need to formulate an energy policy framework within which the rate of growth and pattern of energy consumption would be regulated, the fossil-fuel reserves of energy conserved and measures taken to develop replenishable sources of energy.[34] The comparative study of various alternatives which are available in the country indicate that perhaps a new breakthrough has to be conridered for solving the problem of energy shortage in the country. In the context of the increasing cost of foreign exchange required for import of crude, relatively slow pace of progress in the production of indigenous crude, coal and hydro-electricity resources and the growing needs of the agriculture, industry and trade, perhaps there is no alternative but to concentrate all our efforts on identifying newer sources of energy, changing the consumption pattern of oil and utilisation of all the possible resources for generating the energy in the comming years and judicious use of energy.

Among the measures which can be suggested to curb the present energy crisis in India, the important ones are, reduction of oil consumption, increased use of coal, effective exploration of hydro-electric power, conservation of non-commercial energy sources and adoption of alternative patterns of consumption and production technologies.

Reduction of oil consumption is one of the major steps in the direction of coping with the energy crisis and reducing the pressure on foreign exchange reserves. As transportation accounts for a higher percentage of oil consumption, this sector can economise on the use of oil. This requires evolving an integrated transport policy involving all types of carriers of passengers and goods. In the place of automobiles, bullock carts may be encouraged for short-houl freight traffic between villages and market towns. As an energy source for rail transportation, the use of diesel may be discouraged and coal can be used either directly in steam locomotives, or indirectly to produce electricity for electric locomotives. Therefore, coal and electricity (hydro and thermal) should replace diesel in rail transportation which will be a major step in the way of reducing use of oil. The how defunct Draft Plan (1978-1983)[35] had mentioned that "Further rise in consumption of oil products will be kept within manageable limits through appropriate measures, such as substitution of by oil coal industries for furnace andsteam raising, gradual electrification of railway traction and replacement of diesel pump sets by electrical pump sets through an intensified programme of rural electrification". The use of Kerosene as a fuel for cooking and lighting may be replaced by electricity or bio-gas. Simultaneously, exploration for oil should be intensified and research and development in the petroleum sector be strengthened.

The greatest source of energy that India presently possesses is coal. Much emphasis should be placed on increasing the use of coal as an energy source and as a feed-stock for fertilizer plants. In fact, the Fuel Policy Committee has gone so far as to state: "We should, therefore, consider coal as the primary source of energy in the country for the next two decades and the energy policy of the country has to be designed on this basic premise".[36] Taking these views into account the Draft Five Year Plan 1978-1983[37] had rightly mentioned that "Viewed from the angle of energy supply, coal will be the main source for the next few decades. Whether through direct use or thermal power generation".

A massive attempt should be made to increase the exploitation of the potential of hydro electric resources because only about 20 per cent of those resources are developed.[38] Apart from heavy investments on major hydro-electric works, having long gestation periods, investments should also be made on low cost minor works. In planning the development of the electricity supply industry, improvements need to be made in the present methods of load forecasting, both at the Centre and the States. The comprehensive planning exercises that are being undertaken in the power sector need, as a prerequisite, the creation of a performance-oriented environment without which strategies cannot easily be translated into achievements. The goal of self-sufficiency must be treated pragmatically and achievement of proficiency in operation and maintenance, construction, systems, design, equipment manufacture and adoption of acquired equipment designs to local needs must be given the first and the foremost priority. This requires a strong national electricity grid.

Conservation of non-commercial energy sources is an equally important aspect to be considered. Deforestation and burning of dung needs to be strongly discouraged by providing an alternative cooking fuel. Tne approach should be multi-dimensional with more emphasis on the use of non-exhaustible sources. In this context, gobar gas or biogas has an important place as one of the alternatives to solve the energy problem in the country. Biogos has considerably more potential, particularly in rural areas, because it is derived from dow-dung and other natural wastes by anaerobic formation. The gas contains by valume about 55 per cent methane and 45 per cent carbon dioxide[39] and can be used for cooking, lighting and as a fuel for energizing pump sets. The residue that is left after gasification makes a good organic fertilizer. As a result of recent increase in prices of oil and inorganic fertilizers, the prospective benefit of biogas plants have increased.

Along with the generation of more energy in the commercial and non-commercial sectors, the need is to bring a change in the pattern of consumption of energy in different sectors of the economy as well as in domestic uses and production technology in such a way that the use of oil may be minimised and replaced by coal and electricity in the commercial energy sector and bio-gas in the non-commercial energy sector. The highest priority given to agriculture and rural development which consume less energy is also an admirable step. But the consumption pattern of the domestic sectors should be changed by providing alternative sources in sufficient amount like electricity and bio-gas so that the pressure on oil can be lightened. The need is to fill up the energy gap, i.e., the gap between energy requirements and energy supply through various indigenous sources so that the price hike of the crude may not be instrumental in creating crisis in the energy sector and affect the economy adversely.

REFERENCES

1. Kumar Amulya, Reddy, N. and Prasad, K. Krishnan, "Technological Alternatives and the Indian Energy Crisis", Economic and Political Weekly, Vol. XII, Nos. 33 & 34, Special Number, 1977, p. 1465.

2. Handerson, P. D., India: The Energy Sector, Oxford University Press, 1975, p. 26.

3. Mohsin, N., "Energy Crisis: The Indian Scene", *The Economic Times*, Saturday, Supplement, Calcutta, March 22, 1981, p. 7.

4. Ibid.

5. Government of India, Planning Commission, Draft Five Year Plan 1978-1983, p. 166.

6. Basic Statistics Relating to the Indian Economy, Vol. I, All-India Tables 1.15, October 1976, Centre for Monitoring Indian Economy, Bombay.

7. *The Economic Times*, Special Supplement, March 22, 1981, Calcutta, p. 7.

8. Ibid.

9. Basic Statistics, 1976, Table, 2.7.

10. Handerson, P.D., n. 2, p. 28.

11. Mohsin, N., n. 3, p. 7.

12. Panditrao, Y. A., "Energy Crisis and Gobar Gas", *The Economic Times*, Special Supplement, Calcutta, January 17, 1981, p. II.

13. Handerson, P.D., n. 2, p. 107.

14. Kumar, Amulya, Reddy, N. and Prasad, K. K., n. 1, P. 1468.

15. Government of India, n. 5, p. 168.

16. Tyner, Wallace, E., Energy Resources and Economic Development in India, Allied Publishers Pvt. Ltd., 1978, pp. 36-38.

17. Chitnis, B.V, and Wagle, D.M., "Key Issues in Power Sector", *The Econonomic Times*, Special Supplement, Calcutta, December 13, 1980, p. XI.

18. World Bank, India—Economic Issues in the Power Sector, 1979.

19. Government of India, Fifth Five Year Plan, p. 118.

20. Chitniz, B. V. and Wagle, D. M., n. 17.

21. *The Economic Times*, Special Supplement on Power, Calcutta, December 13, 1980, p. 11.

22. Basic Statistics, n. 6, Table 2.8.

23. *The Econamic Times*, n. 7.

24. Handerson, P. D., n. 2, p. 22.

25. Tyner, Wallace, E., n. 16, p. 110.

26. Handerson, P.D., n. 2, p. 6.

27. Basic Statistics, n. 9, Table 2.7 B.

28. Gumaste, Vasant, "Domestic Energy Needs; Problems and Prospects", *The Economic Times*, Special Supplement, Calcutta, March 22, 1981, p. 8.

29. Ibid.

30. Kumar, Amulya, Reddy, N. and Prasad, K. K., n. 1, p. 1467.

31. Basic Statistics, Table 9.4.

32. Mohsin, N., p. 3, p. 9.

33. Tyner, Wallace, E., n. 16, p. 44.

34. Government of India, n. 5, p. 162.

35. Ibid.

36. Government of India. Report of the Fuel Policy Committee, 1974.

37. Government of India, n. 5, p. 162.

38. Government of India, n. 36, p. 103.

39. Prasad, C. R., Prasad, K. Krishna and Reddy, A. K. V., "Biogas Plants — Projects, Problems and Tasks", E. P. W., Vol. IX, Nos. 32-34, August 1974.

ITDC TO SET UP HOTELS IN CYPRUS, IRAQ

Work has begun on all three overseas projects of Indian Tourism Development Corporation, one in Cyprus, and two in Iraq. Together they are estimated to cost a little over Rs. 40 crores and expected to be completed in about two years. The Cyprus project is a 5-star hotel with 200 rooms in Limassol, the port city of Cyprus. Named Lotus Ashok, the hotel iz a joint venture of the Ashok Group of ITDC and Cypriot Company, Lotus Hotels Ltd.

The projects in Iraq are in Mosul and Dokan. Mosul is the country's centre for communication and commerce and Dokan a mountain resort. With a 4-star rating, the Mosul Hotel will have 250 rooms. The Dokan project is a lakeside resort hotel, a 3-star facility with 102 rooms. The cost of the Lotus Ashok in Limassol is estimated at over Rs. 10 crores, of Mosul Rs. 24.5 crores and Dokan a little over Rs. 7.4 crores.

The Iraq projects have been won in global tenders by the Government-owned National Buildings Construction Corporation to whom ITDC are the prime consultants. Both the Mosul and Dokan hotels are turn-key jobs which on completion will be handed over to the Iraq Government. ITDC will be responsible for designing the hotels and designing and executing interiors, furnishings and furniture including kitchen equipment.

The Limassol Hotel, on the other hand, is a joint venture with a Cypriot company Lotus Hotels Ltd. And, ITDC, apart from taking-part in the equity will provide technical services in planning, designing and overall coordination in construction, furnishings and equipping the hotel as well as management services for operating and marketing the property. The hotel in Limassol, Lotus Ashok, will be a 5-star facility with 200 rooms.

There are several distinctive features and many firsts to these projects: it is the first time that India's public sector has stepped ashore, and in a big way, in an industry dominated by well-established multi-national hotel chains. The Indian hotel industry's overseas effort, pioneered by private hotel chains, has so far been limited to management of existing units. At least two of ITDC's projects—those in Iraq—are turnkey jobs, and, for the first time Indian hotel designs have won in international competition. The Cyprus project goes even further. ITDC will also manage and market the Limassol hotel.

The overseas projects have also opened up the scope for export of Indian materials like timber, furniture, furnishings, fabrics, art-pieces and hotel equipment and Indian cuisine. The joint venture in Limassol might well turn over to be the nucleus of an ITDC chain of hotels in the Medi terranean region. Already, ITDC has received an offer of a hotel project in the Cyprus capital Nicosia and a second hotel projet in Limassol.

Urbanisation: Problems of Unplanned Growth in the Third World

By **B. Ram Prasad** *and* **B. Samba Siva Rao** *

The cities of the Third World are expanding more rapidly than the cities of the industrialised countries. In this article, the authors analyse the urbanisation pattern in the countries of the Third World, examine the nature of urbanisation and indicate the levels of growth that are being experienced by these countries. Urbanisation, if not properly guided and planned, brings many problems, the impact of which will be severely felt by the economy.

THE rate of urbanisation is very high in the Third World countries. During the last 50 years, the developed regions increased their urban populations by a factor of 2.75 (from 198 million to 546 million), while the Third World countries increased their urban pupolations by a factor of 6.75 from 96 millino to 464 million)[1]. This shows the tremendous amont of urbanisation that has taken place during the last several decades. This rapid urbanisation in the developing countries is more or less a recent phenomenon. Prior to, World War II, when most of the nations of the Third World were under the control of colonial powers, the rate of urbanisation was not very high. Only after the attainment of independence. the rate of urbanisation was fast. Gerald Breeze, while analysing the growth of urbanisation in these developing countries since 1900, observes: "Between 1900-1950, the population living in cities of 100,000 or more in Asia mounted from an estimated 19.4 million to 105.6 million (444 per cent) and in Africa from 1.4 million to 10.2 million (629 per cent)"[2]. Clearly, it is the Third World that is experiencing the major thrust of urban growth today. "With 25 per cent of the urban population in 1920, the third world will encompass 51 per cent by 1980"[3]. The Table-1 gives us an overall view of the rates of urban population growth, regionwise in the recent decades for the whole world.

Barring the capital surplus oil exporters, developing nations are experiencing consistent rates of urban population growth. They increased their urban population by 4 per cent annually during the period 1950-60 and 1970-80 and are expected to increase by 3.5 per cent for the period 1990-2000. During 1950-60, centrally planned economies increased their urban populations a bit higher with 5.2 per cent annual growth rate, but this rate slumped to 2.7 per cent during 1970-80 and further may recede to 2.4 per cent during 1990-2000.

We find a number of differences in the process of urbanisation and in the factors that have contributed to it, between developed and developing regions, These differences make the whole urban structure of cities of developing nations entirely different from that of developed nations. Same is the case with the problems of Urbanisation also. In western urbanisation, individuals flocking to cities for better employment and facilities had a variety of cities to choose and this led to the spread of urbanisation to a number of different places whereas in the newly developing nations, "the trek to the city may have been of necessity limited to one city or only a few, thus focussing the burden or urbanisation on a limited number of places and accessibility problems that otherwise could have been shared by many"[4]. And the cities of the Third World grew at a faster rate than the cities of the developed countries. In the west, urbanisation involved gradual innovation and interdependence on economic and social change spanning more than a century. Contemporary Third World urbanisation involved greater number of people than it did in the West.

In the developed countries, rapid industrialisation was the cause of the growth of urbanisation. But this is not so in the case of Third World nations. "Industrialisation lags far behind the rate of urbanisation with the result that the bulk of the migrants find only marginal employment in the cities. The World development Report aptly summarised it: "whereas urbanisation in the industrialised countries took many decades permitting a gradual emergence of economic, social and political

TABLE-1

URBANISATION RATES AND URBAN POPULATION GROWTH FOR THE WORLD 1960-2000

Region	Urban population as percentage of total population			Average Annual percentage growth of urban population		
	1950	1975	2000	1950-60	1970-80	1990-2000
Developing Countries	20.6	31.1	45.8	4.0	4.0	3.5
Industrialised countries	62.4	74.4	83.6	2.0	1.2	0.8
Capital Surplus Oil Exporters	16.9	55.5	77.9	7.9	7.1	3.1
Centrally Planned Economies	20.7	34.4	49.2	5.2	2.7	2.4
World	29.0	39.3	51.5	3.5	2-8	2.6

Source: World Development Report, World Bank, Washington D.C. August, 1979 pp.72.

---

* B. Ram Prasad and B. Samba Siva Rao. Research Scholars, Department of Cooperation and Applied Economics, Andhra University, Waltair, A.P.

institutions to deal with the problems of transformation the process in developing countries is occuring for more rapidly against a background of higher population growth. lower incomes and fewer opportunities for international migration".[5]

Even among the developing countries, we find certain differences in characteristics of urbanisation. They are identified by broad regional groups. In the first group comes the highly urbanised middle income centres of Latin America, 50 per cent of whose population had already lived in urban areas in 1975 and by 2,000 nearly 75 per cent are expected to do so. In the second group are the predominantly rural countries of sub-Saharan Africa, where urbanisation is a recent phenomenon. But, at present, these areas are experiencing very high rates of urbanisation due to high natural population growth and large scale rural-urban migration. Low income countries of Asia where some of the world's largest cities are located, come in the third group. In these countries also, population is predominently rural. For remaining countries of the Third World, the structure of urbanisation lies somewhere between the first group and the third group. The Table-2 gives us a view about the proportion of urban population to total population and their average annual growth rates etc. (See Table-2).

Between 1950 and 1975, 400 million people have been absorbed in urban areas in developing nations. Between 1975 and 2,000 this number may rise upto 1 billion. "The rate of urbanisation growth in these countries is likely to decline after 1975, but is expected to remain 3 to 4 times as high as the urban growth rates of the industrialised countries in this period".[6] Also the rate of urbanisation is very high when compared to the rates of urbanisation in developed countries. "During 1920 to 1960, the city populations of the third world increased by 9 times where as it was 0.6 times for Europe and 2.4 times for other more developed regions"[7]. Even in the case of large cities, the developing world is expanding rapidly compared to the developed world. In the Third World, 'Greater Buenos Aires' was the only big city which had more than 5 million population in 1950. At that time, industrialised nations had five such cities. By the year 2,000 the developing world will have about 40 cities of the above size compared with only 12 in the industrialised world. As many as 18 cities in developing nations are expected to have more than 10 million inhabitants. By 1975, India has 28 cities of over 500,000 population, followed by Brazil with 12 such cities, and Pakistan, Indonesia, Korea, South Africa, Spain, each having six much cities. In the developed countries. only Unitied States has 57 cities of over 500,000 population, followed by USSR with 44 such cities, and United Kingdom with 16 such cities. Another feature of the third world urbanisation is considerable propertion or urban population living in the largest city. For example, Mozambique has only one city of over 5,00,000 population and 83 per cent of the urban population of that country lives in that city. Like that 69 per cent of the urban population in Thailand, 67 per cent in Jamiaca, 65 per cent in Panama, live in one largest city.

In the case of India, during the 50 years from 1881 to 1931, the rate of urbanisation was very low.[8] In 1881, only 8.7 per cent of the population were living in urban areas. During the next 50 years it was almost stagnant as only 10.4 per cent of the population were living in urban areas by 1931. Even those few cities were concentrated in certain regions. In 1881, India had 18 cities of 1 lakh population and more and out of this 6 were in U. P., 4 in Bombay, and the remaining cities scattered over the entire country. By 1931 the number of such cities have increased

TABLE-2

PATTERNS OF URBANISATION IN SOME SELECTED DEVELOPING COUNTRIES

Country	Urban population				Percentage of urban population				No. of cities of over 5,00,000 people	
	As percentage of total population		Average annual Growth (%)		In the largest city		In cities of over 5,00,000 people			
	1960	1975	1960-70	1970-75	1960	1975	1960	1975	1960	1975
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Argentina	74	81	2,0	1.9	46	46	54	60	3	5
Brazil	46	51	4.8	4.5	14	16	35	50	6	12
South Africa	47	48	2.8	2.9	16	13	44	51	4	6
Phillippines	30	34	3.8	3.5	27	30	27	33	1	2
Egypt	38	44	3.4	2.7	38	39	53	54	2	2
Mauritania	3	23	15.8	14.4	—	—	—	—	—	—
India	18	21	3.3	3·1	7	6	26	35	11	28
Pakistan	22	26	4.0	4.1	20	21	33	50	2	6
Tanzania	5	9	6.3	8.5	34	47	0	47	0	1
Kenya	7	12	6.6	7.0	40	53	0	53	0	1
Uganda	5	10	6.3	8.5	38	50	0	50	0	1
Malawi	4	20	12.7	18.4	–	23	0	0	0	0
Nigeria	13	18	4.7	4.6	13	17	22	33	2	5
Rhodesia	13	20	6.8	6.4	40	48	0	48	0	1
Columbia	48	66	5.2	3.9	17	24	28	48	3	4
Korea,Rep.of	28	49	6.4	5.4	35	41	61	75	3	6
Syria	37	47	4.8	4.7	35	33	35	55	1	2
Algeria	30	54	6.1	6.8	27	14	27	14	1	1
Lebanon	44	70	6.3	4.9	64	77	64	77	1	1
Mexico	51	63	4.8	4.6	28	32	33	47	3	6
Hongkong	89	90	2.5	2.1	100	100	100	100	1	1
Spain	57	71	2.6	2.4	13	16	37	43	5	6
Singapore	100	100	2.4	1.6	100	100	100	100	1	1

Source : World Development Report, World Bank, Washington D. C. August 1979.

to 29, and by 1951, to 70 cities, by by 1971, to 142 cities. During 1960-70, India has recorded an annual growth rate of 3.3 per cent in and during 1970-75, it has slightly slumped to 3.1 per cent. During 1960, 26 per cent of the urban population were living in cities of over 5 lakh people, by 1975 it has increased to 35 per cent. In India, in 1960, there were 11 cities of over 5 lakh people and by 1975 the number has risen to 28. In 1960, for the total Third World as a whole, there were 73 cities of over 5 lakh people and by 1975 the number has increased to 159. Table-II gives the details of the urban population for some selected countries.

All is not well with this growth. Rapid urbanisation of the Third World countries has brought myriad problems which have become very challenging and some times embarassing to the respective national governments. The uncontrolled outflow of the rural areas into urban areas has generated many social, economic and cultural problems. In the Third world in a majority of the cases, urbanisation and its subsequent problems are the result of the "overflow" of rural poverty in to urban areas. Though economic development has been the highest national priority in all these countries but they have failed miserably in keeping pace with the growth of urbanisation. Another problem is, economic activities and wealth of these countries are concentrated in a few large urban centres, leaving its peripheral areas in their traditional and primitive stage. There is significant amount of cultural diversity as most of the population in big cities of these nations consists of migrants. Migrants form a significant proportion in the population of the cities of the Third World. Estimates of migrants as a percentage of recent population increases is given in Table-3.

Along with rapid influx of people from rural areas into the urban areas, there emerged another problem of the unorganised urbanisation—rising slums and squater settelements. Most Third World urban growth is concentrated in these so called squatter settlements or uncontrolled peripheral settlements which account for a substantial share of the city population. These settlements are called by different names in different countries.

TABLE-3
SHARE OF MIGRANTS IN POPULATION INCREASES

City	Period	Total Population Increase (in thousands)	Migrants as a percentage of population increase
Abidjan	1955-63	120	76
Bombay	1951 61	1207	52
Caracas	1960-66	501	50
Djakartha	1961-68	1528	59
Istanbul	1950-60	672	68
Lagos	1952-62	393	75
Nairobi	1961-69	162	50
Sao Faulo	1960-67	2543	68
Seoul	1955-65	1697	63

Souce: World Bank, Urbanisation Sector Working Paper, 1972, June 1972, Washington D.C.

In Latin America, they are referred as *barriadas* or *favelas*, in North Africa as *bidonvilles*, in India as *bastees*, and in Turkey as *gecekondu*, in Malaya as *kampongs* and in Philippines as *barong-barongs*. The people of these squatter settlements live in a culture of poverty. In this culture, the people will "produce little wealth and receive little in return, chronic unemployment and underemployment, low wages, lack of property, lack of savings, absence of food reserves in the home and chronic shortage of cash, imprison the family and the individual in a vicious circle".[9] Along with these, the slums contribute significantly to the decadence of city in the form of filth, squalor, depravity. The Table–4 gives us the extent of uncontrol peripheral settlements and the proportion of its population to the total population of the cities of some Third World countries.

As Table-3 indicates, more than 50 per cent of the population of the cities of the developing world consist of migrants. Most of them — nearly, 40 per cent — come in search of a job. Lack of proper accomodative power in the highly skilled industries in the cities forces them to settle for less skilled jobs and low income earnings. This phenomenon develops itself into people becoming themselves self-employers in the form of 'street vendors, newspaper sellers,

TABLE-4
EXTENT OF UNCONTROLLED SETTLEMENTS IN DIFFERENT CITIES OF THE THIRD WORLD

Country	City	Year	City population (thousands)	Uncontrolled settlements	
				Total (thousands)	As percentage of city population
Senegal	Dakar	1969	500	150	30
Tanzania	Dar es salam	1967	273	98	36
Zambia	Lusaka	1967	194	53	27
China (Taiwan)	Taipai	1966	1300	325	25
India	Calcutta	1961	6700	2220	33
Indonesia	Djakarta	1961	2906	725	25
Iraq	Baghdad	1965	1745	500	29
Malaysia	Kaula Lumpur	1961	400	100	25
Pakistan	Karachi	1964	2280	752	33
Republic of Korea	Seoul	1970	440	137	30
Singapore	Singapore	1966	1870	980	15
Turkey	Ankara	1970	1250	750	60
Brazil	Brasilia	1962	148	60	41
Chile	Snatiago	1964	2184	546	25
Columbia	Buenaventura	1964	111	88	80
Mexico	Mexico City	1966	3287	1500	46
Peru	Lima	1969	2800	1000	36
Venezula	Caracas	1964	1590	556	35

Source: Berry, B. J. L.: "Human Consequences of Urbanisation", Pp. 84.

shoeshine boys, stall keepers, prostitutes, porters, beggars, hawkers, rikshaw pullers."[10] According to the ILO report on Kenya, this kind of labour which constitutes the informal sector of the Third World countries, ranges from 40 to 60 per cent in the total labour force. Its estimates for Calcutta is 43 per cent (1971), Jakarta 40 per cent (1967), Abidjan 31 per cent (1971), Lagos 56 per cent (1963), Bagota 53.68 per cent (1974), Sao Paulo 35.43 per cent. (1970).[11] This gives us the magnitude of this sector in the developing countries. The people who work in this sector present a miserable plight. In India, it is estimated that value-added per worker in this sector per year comes around less than Rs. 70 per month.[12] These workers get a *per capita* monthly income of Rs. 50. In the consumption level range of Rs. 75 to 100, nearly 70 per cent of it goes for the consumption of food materials. These unorganised folks with a bear minimum income of Rs. 50 cannot even fulfil the partial requirements of food materials.

On the part of the Governments of the Third World, the efforts to organise the city growth is equally poor. Urban planning remains very unimpressive. Traditional master planning is discarded and alien solutions confuse the planners. Even these plans take a long time to materialise. Master plan for Kaula Lumpur was launched in 1965 on the basis of 1964 data, completed in 1969 and published in 1970.[13] A master plan for Banglok was completed 20 years ago and updated 10 years later, but has never been accepted or implemented. The position is no better in India.

REFERENCES

1. Berry, B.J.L., "Human Consequences of Urbanisation", Macmillion, Great Britain, 1973, pp. 74.

2. Breeze, Gerald, "Urbanisation in Newly Developing Countries", Prentice-Hall, U.S., 1966, p. 16.

3. Berry, B.J.L., Ibid, p. 74

4. Breeze, Gerald, Ibid, p. 107

5. World Development Report, World Bank, Washington D.C. August 1979, p, 72.

6. World Bank, Ibid, p. 72

7. Berry, B.J L., Ibid, p. 74

8. Sovani, N. V., "Urban Development and Regional Planning in India", Population Statistics in India, edited Ashish Bose, Devandra B.Gupta, etall, Vikas Publishing House Pvt. Ltd., New Delhi, 1977, p. 192-200.

9. Berry, B.J.L., Ibid, p. 85

10. Breman, Jan, "A Dualistic Labour System, A Critique of Informal Sector", *Economic and Political Weekly*, 27th November 1976, pp. 1870.

11. Viswa Karma, "Urban Informal Sector, Concept and Public Policy Issues", Paper presented at the Seminar on 'Urban Informal Sector', organised by IIPA and operations Research group, Baroda, Feb. 15-16, 1980.

12. Bose, A. N., "Informal Sector", Problems and Prospects, Paper presented to the Seminar on 'Urban Informal Sector', organised by IIPA and Operations Research Group, Baroda, Feb. 15-16, 1980.

13. Berry, B.J.L, Ibid, p. 105

The widest option to choose just the imported machinery you need

WITH A FOREIGN EXCHANGE LOAN FROM G S F C

Are you planning to modernise your plant, diversify or expand your product range? Do you wish to start a new industry? If you need imported equipment and machinery, come to GSFC for a foreign-exchange loan. Whatever be your total investment, if your share capital and free reserves are below Rs. 1 crore, we can arrange foreign-exchange loans upto Rs. 30 lakhs. Further, if your project is in one of the Backward Districts, the loans are available at concessional rate of interest. Thanks to the simplified procedures, you can obtain an import licence easily.

GSFC has so far aided several units with foreign-exchange loans. We also provide rupee loans for the purchase of indigenous plant and equipment.

For further information, Please contact :

GUJARAT STATE FINANCIAL CORPORATION

Jaldarshan Building, 1st Floor, Ashram Road, P. B. No. 4030,
AHMEDABAD-380 009.

Conservation for the Survival of Agriculture

By **B. V. Nimbkar** *

Conservation of the country's natural resources, primarily land and forest wealth, has received scant attention by our planners. As a result of the excessive use of land and indiscriminate depletion of forest resources, the country faces the danger of the loss of soil through erosion and adverse climatic changes affecting rainfall. In this article, Mr. Nimbkar strikes a refreshingly original note by suggesting a 50 per cent reduction in the area under cultivation and the creation of a "soil bank" of 70 million hectares. Even with the reduced acreage, the author avers, it is possible to produce enough food for the country by improving the productivity.

WHETHER the primitive peoples of the world did and do have a special rapport with their environment is a moot point. That they have generally desisted from destroying natural resources to their own detriment may simply be due to the low rate of population growth, or their lack of knowledge of the exploitation potential of the natural resources available to them. Whatever the reason, it is left to the modern civilized man to destroy natural resources wantonly and without any regard to the future.

Civilized man has learned to use these resources in ways and at a rate undreamed of a few hundred years ago, to make a better, more comfortable, more enjoyable life for himself. However, his enlightenment stops short of knowing where the danger line is. The time when he oversteps it may be very close at hand in our country, as the tremendous growth of population forces us to use up natural resources faster than they can possibly be replaced. Our environment may soon be depleted to such an extent that it will not be capable of sustaining us, unless an organized effort is made to preserve it.

Broadly, the resources which need to be conserved can be classified into two types—those which, for all practical purposes, cannot be replaced, and those which can, at great expense and over a long period of time, be redeemed. Of the irreplaceable resources, the most important are soil and virgin forests, the latter as repositories of genetic material which is important for redeeming and replacing already destroyed resources.

So far, we have refused to adopt any soil conservation measures and are now losing 6,000million tonnes of soil every year. Because of the increase in population, we have continued to require a greater quantity of agricultural produce. We have been able to meet the requirement partly by bringing more and more land under cultivation and partly by adoption of modern technology. We are farming practically all the land that is cultivable, and what remain available for further expansion are submarginal lands. In the next few years, productivity of the lands now under cultivation will be increased by bringing 113 million additional hectares under irrigation. How, under these circumstances, with no hope of the population pressure easing, can we conserve soil?

My contention—supported by the views of several eminent agricultural scientists in this country—is that we do not need to have all this land under cultivation to produce sufficient food to support even our vast population. It should be possible to grow sufficient food on only a fraction of the 140 million hectares now under cultivation. However, if we only double the productivity of land, it will be possible to release 70 million hectares from cultivation and put it in a 'soil bank' by converting it into grassland or forest.

First of all, a survey will have to be made to classify land according to slope and depth of soil and determine which land must be taken out of cultivation. The All India Soil and Land Use Survey of the Government of India is in the process of carrying out such a survey. Whatever their findings, any action on them will be impeded by three factors. One factor concerns policy making, the second concerns the implementation machinery and the third, alternative employment for the people whose land is taken out of cultivation.

It is a well-known fact that politicians are chary of making policy decisions which may be unpopular with a large group of their voters. We can only hope that, in the not too distant future, our politicians will be enlightened enough to see that certain policies will be beneficial in the long run, and unselfish enough to take decisions without an eye on the next election.

If the making of the right policies is difficult, the implementation is even more so. There are several reasons for this, one of the most important being the system of transfer of government officers which we have inherited from the British and unquestioningly adopted. It allows the incompetent officers to have an easy excuse for not accomplishing anything and an immunity from accountability; and it frustrates those who want to accomplish something by denying them sufficient time to show palpable results or credit for their zeal and dedication. There is also an illogical division of functions among state and district level agencies so that no one agency is entrusted with overall responsibility for important developmental work. Often, bureaucratic jealousies and confusion regarding jurisdiction prevents cooperation among the agencies working in a particular area. Each assumes as little responsibility as possible and nothing is accomplished.

As for as soil conservation is concerned, at present it is the job of a District Soil Conservation Office who does not do much else except carrying out haphazard bunding operations of dubious value. He has no powers to prevent the cultivation of lands which have too shallow soil or too high a slope, or the fragmentation of land holdings along the direction of the sloping. This sort of division of land results in holdings which consist of very narrow sloping strips of land which are ploughed and cultivated in such a manner as to encourage the maximum amount of soil erosion.

---

* Mr. Nimbkar is Managing Director, Nimbkar Seeds and Agricultural Development Company Private Ltd., Post Box No. 23, Phaltan (Dist. Satara).

Instead of this rather ineffective and oft-transferred district level soil coservation officer, what is needed is a developmental agency on the lines of the Command Area Development Authority which will encompass the whole watershed of a particular region. This agency should be in the charge of a Secretary level administrator who will be responsible for agricultural production, full employment and conservation of long-term assets in the particular watershed and who will be posted in that area, along with most of his staff, for a period of at least ten years. At the end of this period, the work of the agency as a team and also the work of individual staff members can be evaluated. Nothing can be accomplished if such important developmental work is entrusted to transferable employees. It will be interesting to note, in passing, that such a Command Area Development Authority has been formed by the Government of Maharastra. However, its working is impeded by non-co-operation of other departments and transfers of personnel.

The third factor mentioned above is employment for those whose lands have been taken out of cultivation. The Government of Maharashtra has developed a very effective tool in the form of the Employment Guarantee Scheme which other states can profitably use. About 180 crores of rupees are now being spent annually to provide one million full-time jobs to the unemployed or under-employed section of the rural labour force. The scheme works in the following ways.

1. It provides full employment to rural labour in off-seasons, thereby increasing their earning power.

2. By providing alternative employment at a certain minimum wage, it forces farmers in the area to pay that minimum wage.

3. It enables marginal farmers to give up subsistence level farming on inadequate and poor quality land holdings.

If used properly, the Employment Guarantee Scheme can become a powerful tool for carrying out soil and water conservation measures and maintaining public property like roads, forests, irrigation and drainage systems. At present the effectiveness of the scheme is marred by lack of long-range planning resulting in *ad hoc* measures whenever the need for work arises. Also, since the various jobs mentioned above fall within the jurisdiction of various different agencies and departments, concerned action is difficult. However, the scheme has tremendous potential for providing alternative employment to those whose lands are taken out of cultivation. This will have a two-fold beneficial effect by providing a higher income to the rural poor and by saving marginal lands now exposed to cruel erosion, by putting them into grass or trees.

A concrete example will serve to illustrate the varions points I have made. It concerns the valley of the Pavana river in a high rainfall tract of Maharashtra. A dam was constructed here 5 miles from the source of the river in 1966. At this time the catchment area was heavily forested. It was a fairly isolated region which was then brought in contact with the outside world through the construction of roads. Roads provided access to outside exploiters who cut down forests to make charcoal. Now the hills ringing the lake are almost completely denuded. The process has been helped along by local people many of whom practice shifting cultivation, and cut down trees to plant ragi. It is amazing that after generations of living in a heavily forested area these people have not learnt that forest produce is more paying than a poor yield of any grain crop.

The cultivators in the valley get supplementary income from selling milk. The quality of the cattle is poor, their milk yields very low. This results in an inordinate growth in the number of cattle. Lands are overgrazed and erosion follows. With all these factors contributing to erosion, the lake is in danger of silting up quite fast. Although this danger was known from experience elsewhere, nothing was done to prevent erosion. The forest comes under the purview of the forest department which is not concerned with the silting up of the lake. They were not concerned about the destruction of the forest apparently because the forest was not productive from their point of view. Also, for the whole area there is only one forest guard who can be either bribed or threatened into connivance. I once went to the area with several officers including the district forest officer and the conservator of forests. They were not even sure which areas belonged to the forest department, as they had been transferred to this post only recently.

Many of the roads which have contributed to the rape of the region have been built under the employment guarantee scheme, and they are built without cross-drains, they do not follow a contour and they have steep gradients. This makes them more susceptible to erosion than properly constructed roads. Actually, the assistant engineer in charge of the dam is in charge of road construction. However, the employment guarantee scheme is administered by the revenue department. A third agency, the Zilla Parished, runs the motor launch which is the only other means of transport in this part of the valley. If it provided efficient and regular service, so much road construction would be unnecessary. The service is, however, most haphazard and unreliable.

Water utilization presents another discouraging picture. The great cost of building an irrigation dam is justifiable only if the use of irrigation water increases the productivity of a substantial acreage of land. In the case of the Pavana dam, only about 10% of the water is utilized. The farmers say that the charges are too high. and in any case their main crop is rice which is grown in the monsoon and does not require irrigation. There is an agricultural experiment station which is supposed to demonstrate the growing of various crops under irrigation and advice the farmers regarding the crowing and marketting of new grops. The experiment station's farm has been leased out to the relative of a political big-wig.

The few farmers who want to take irrigation water cannot make use of it as their lands are not shaped. Land shaping is the responsibility of the Land Development Corporation which gets funds from the World Bank. I visited a plot of land which was supposed to have been shaped and found that it was only half done. I was told that as the budget allowed for this operation had been spent it was assumed that the work had been completed. The farmer had been left worse off. In addition to not being able to irrigate his land, his land had been rendered unproductive by scraping. It will be seen that in every possible way, the building of this dam has been detrimental to the valley which it was meant to develop and enrich.

The second irreplaceable and non-renewable natural resource which I want to discuss in this article is virgin forest. The total tree cover in this country today is about 30 million hectares out of a total geographical area of 328 million hectares, or less than 10 per cent. A decade ago it was about 20 per cent. The figures tell their own dismai story and have been much talked and written about recently. What is not generally perceived and what is even more alarming than the destruction of ordinary forest cover is the threat to the virgin forests which form only a fraction of the total forest.

The plant kingdom in these forests consists of an estimated 5,00,000 species. Of this vast storehouse of germ-plasm only about 0.2 per cent is exploited by man. About 30 species account for most of our food. Of these again, only 7 species keep most of humanity from starvation. Three thousand more species may have potential as major food crops, and several thousand more are probably useful for other purposes. Many of these can be developed for planting the land masses despoiled by man, such as desert farmland, saline and water-logged soils and badly eroded areas.

Two types of stresses are the limiting factors for increasing production of many world crops—environmental stress such as extremes of precipitation or temperature, toxic ions, air pollutants, wind, hail, compacted soil; and biotic stresses from weeds, diseases, insects and other pests. A lot of work is being done in the direction of finding species which can tolerate the abiotic stresses and withstand the biotic stresses better than the species cultivated at present. This quest can open up untold new possibilities in the field of agriculture and related activities.

There are other ways in which the jungle can enhance man's life. It is, for instance, an emporium of chemicals, many completely unknown, with compounds and structures wholly undreamed of by today's synthetic chemists. Hundred of these may prove useful to man for medicinal and other purposes. Although the system of Ayurvedic medicine has identified a large number of medicinal plants, I do not think that even a beginning has yet been made in an organized scientific study of the plant material in the Indian jungle.

Jungles are thus vital for the future of man as sources of genetic diversity and of chemical substances. When man finally degrades his environment to the point where it is intolerable to the present species of plants used by him, and is reduced to asking 'what now?' it is the virgin forests which may provide an answer. For this reason it is imperative that these be preserved. It is necessary, first of all, to identify virgin forests from satellite photographs. These should be identified as national preserves and all population should be removed from them. Their preservation should be the job of a non-transferable forest preservation service which is quite seperate from the forest department. It should be the responsibility of this service to prevent the entry into these forests of any human being for any exploitative purpose such as hunting, cutting of grass or wood. The domestic grazing animals will be automatically kept out by the natural increase in the population of predatory animals.

One of the easiest ways to prevent exploitation of a jungle is to prohibit the construction of roads which a four-wheeled vehicle or bullock-cart can traverse. Only footpaths or bicycle paths should be allowed. This alone will put an effective stop to the major predatory activity, the cutting of trees, because there will be no easy way to carry out the wood or coal to a market. It is only through such extreme measures that the few remaining virgin forests can be preserved. I would like to emphasize finally, that the awareness that irreplaceable natural resources need to be preserved, exists in our country. What steps should be taken in order to preserve them is also known. What is needed is the courage of conviction on the part of politicians to pass the requisite legislation, and a responsible bureaucracy to carry out policies.

REFERENCES

Duke J. A. "The Quest for Tolerant Germplasm" Crop Tolerance to Sub-optional Land Conditions. American Society of Agronomy, 1978

Gadgil M. and Malhotra K. C. Report of the Field Study conducted on behalf of the Committee on Legislative Measures and Administrative Machinery for Environmental Protection, June 1980

International Crop Research Institute for Semi-Arid Tropics, Hyderabad, A. P. Annual Report 1978-79

Report of the National Commission on Agriculture (1976) XV Parts. Government of India, Ministry of Agriculture and Irrigation, New Delhi

Patel H. M. ed. Chairman's Report: National Conservation and Environment Policy (NCEP)

Swaminathan M. S. Indian Agriculture at the Crossroads. Indian Journal of Agricultural Economics Vol. XXXII No, 4 Oct/Dec. 1977

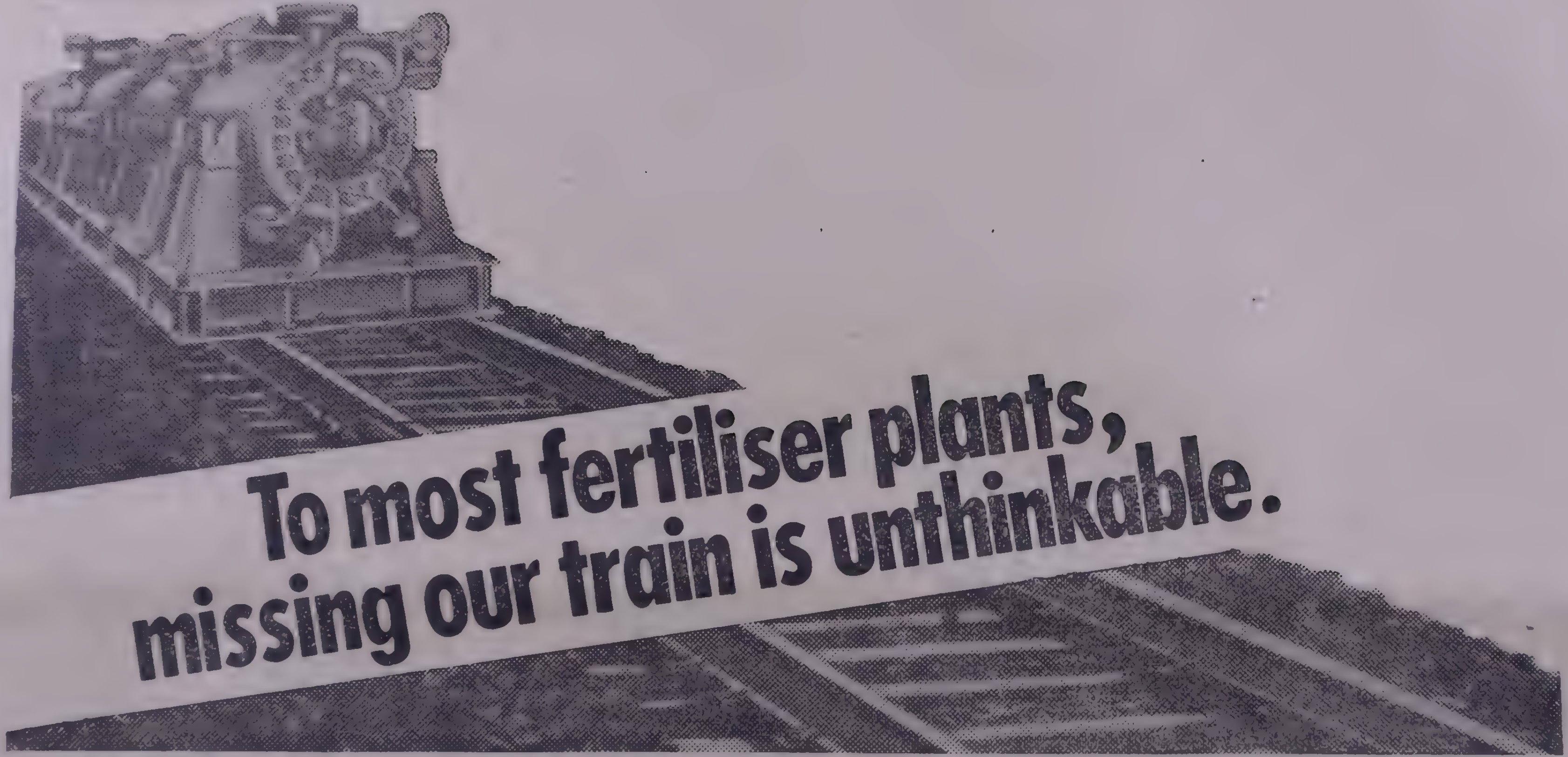
Soil Conservation and Management in Developing Countries F. A. O. Soils Bulletion 33 Food and Agriculture Organization of the United Nations. Rome 1977.

Subscribe to :

SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign:* 15 Dollars)
surface mail



Criteria for Rehabilitating Sick Units through Bank Finance

By **Shubhra Garg** *

Sickness among industrial units, particularly in the small scale sector, has assumed alarming proportions. Among the agencies which are engaged in the task of nursing the sick units, banks have a major role. Considering that the advances made to these ailing units add up to a sizable amount, the banks are realising the need to streamline their lending criteria. In this article, the author analyses the familiar pitfalls and suggests ways to avoid them.

INDUSTRIAL units become sick when something happens which makes it difficult for them to run efficiently. The symptoms of industrial sickness are not always visible though they can surely be located with a close analysis of temporal performance of a unit and with the help of certain physical and financial parameters. A sick unit has been defined as 'one which fails to generate internal surplus on a continuing basis and depends for its survival on frequent infusion of external funds'. The sickness varies in kind as well as in degree. Financial sickness would also include cases where current liabilities exceed current assets and/or where the debt-equity ratio is deteriorating. A sick unit is one which incurs cash losses for a year or so and is likely to incur such losses in subsequent years, or when the ratio of current assets to current liabilities is less than 1:1

Industrial sickness is largely a phenomenon of dwindling financial viability. However, its symptoms can be in the form of continuous deterioration in production, profitability going down from year to year without any visible sign of recovery and so on. Broadly, sickness can be classified into two categories, viz., internal and external. Internal causes include factors like choice of wrong location, overestimation of capital costs, over-estimation of demand, delay in implementing the project and escalation in costs, faulty management accounting, failure to introduce proper financial and cost control methods, and managerial deficiency, lack of proper plant maintanance and replacements.

External factors causing sickness include: Government policies regarding production, prices and distribution; inadequate availability of essential inputs including raw materials, power, transport and so on, decline in public sector investment, demand recession, surplus labour, adverse industrial relations and shortage of working capital.

Recently the Reserve Bank of India, in its report, has pinpointed certain causes for the sickness in industrial structure. With regard to medium and large scale industries, the report is of the view that mismanagement, power shortage, outmoded machinery, fluctuations in the supply of raw materials and deficiency of demand are the main causes for such state of industries. As regards the small units, the report shows that sickness is caused by lack of managerial experience, technical incompetence and a decline in the demand for their products from the medium and large scale industries and demand recession.

Added to this, delays in the payment of supply bills by Government departments and by large units, lack of quality consciousness and poor marketing methods are also mentioned as contributory factors. Small units tend to become sick when credit restrictions are introduced and the money market become tight. Management problems, which are principally the outcome of sales, and production falling below the break-even point have also been major causes of sickness. It is true that though small units generally do not adopt modern management policies due to their limited know-how and because of their inability to adjust themselves to changed circumstances within a given period.

According to the available data, in June 1980, there were 390 sick units (excluding those taken over by the National Textile Corporation) which were enjoying a credit limit of Rs. One crore and more from banks. The small scale sector is not free from this problem. While 390 large units were sick in June 1980, resulting in locking up of bank credit worth Rs. 1,500 crores, as many as 8,000 units were reported to be sick in the small scale sector resulting in locking up of bank credit worth Rs. 250 crores.

According to RBI's annual report for the year 1979-80, the number of sick industrial units with credit limits of Rs. 1 crore and above from the banking system has increased from 345 in June 1979 to 390 in June 1980. The total amount of bank credit outstanding against those units went up from Rs. 1,102 crores to Rs. 1,500 crores, showing a rise of 45 per cent. In the 390 sick units, an amount of over Rs. 4,000 crores is estimated to have been sunk. The loss of G. N. P. as well as the fall in state's revenue due to industrial sickness are indeed enormous.

The favourable turn in the economic situation in the last few years due to favourable monsoons and improved performance of the infrastructure industries has no doubt had a salutory effect on the fortunes of the corporate sector, but it does not appear to have made any significant difference to the problem of industrial sickness. Commercial banks, which are familiar with local conditions, have a vital role to play in arresting industrial sickness. They are under an obligation to pay better attention to sickness than any other agency. However, the banks should be very careful in dealing with sick units because they are bound to enter a vicious circle, sooner or later. The vicious circle emerges thus: even if the unit is experiencing increasing sickness, the bank has to provide finance since there is no hope of rehabilitation without bank finance. And there is no hope of repayment of loans by sick units without rehabilitation.

---

*Miss Shubhra Garg is Research Fellow, Department of Commerce, Aligarh Muslim University, Aligarh.

The banks must be ready to help the sick units and they should also see that there does not arise any communication gap between them and the units which they finance. The communication gap is a practical problem experienced by banks. This renders it difficult to devise appropriate remedial measures. When things do not move according to the original plan, the managers of the enterprise are tempted to conceal the vital developments with the fear that when these are disclosed, the bank may take punitive action. It is therefore necessary that as soon as the rehabilitation programme starts, the bank should appoint their own nominees either on a full time basis or on a part time basis on the board of directors of the sick units they finance. Since banks may offer valuable suggestions to arrest sickness, especially in the initial stages, the sick units must periodically inform the developments to their bankers. It is rightly said that financial institutions can risk money in rehabilitation only to the extent they themselves do not become sick. It is, however, true that if banks are careful in respect of credit assessment and supervision systems, no unit can become sick without their knowledge.

The banks' responsibility does not end with the provision of finance to the sick units. They should have diagnostic ability to prevent sickness in the initial stages. For this, they must possess technical staff who are familiar with pre-sanction and post sanction analysis of the statements relating to the technological and financial position of the unit. The Industrial Reconstruction Corporation of India may take the initiative in this matter by starting training programmes for the personnel of commercial banks. Since sickness is also largely due to mismanagement, the financial institutions should insist on the introduction of a suitable management accounting system as a prerequisite for sanctioning advances.

It is a fact that all sick units do not have financial problems. If sickness is due to factors other than finance, a purely financial approach to the problem would be of little use. For instance, if sickness is due to mismanagement, a change in management alone can lead to the revival the sick unit. It is useless, to extend credit to units facing sickness due to mismanagement. Here, it may be suggested that while extending financial help, the banks should insist on a change in management or should see that their own representatives are appointed on the Board of Directors to exercise effective control over the policies of the unit. The Banks should make it clear that they are not interested in advancing loans to units which do not observe the norms of sound management. The banks ought to have a clear and reliable idea of the break-even point in terms of production or sales volume and the time required to reach that point.

Another problem may be traced to the mismanagement of the unit by the promoters. when such a situation arises, the bank must take every step to take proxy rights for the shares or by nominating their own representatives on the Board of Directors and Board of Management of the sick units. In extreme cases, it may even be preferable to recommed take over of the unit by the Government to avoid further mismanagement of the units.

If sickness is due to factors which are not under the control of the banks, they should be careful about assisting such units. Sometimes, units become sick if they fail to adjust themselves to the technological or economical transformation of the industrial structure. Banks can do very little in this case. The Government alone can rehabilitate such units. There is, therefore, need for integrating the problem of industrial sickness with industrial planning in general with a view to minimising the burden on the financial institution.

It is evident that banks must study the circumstances under which the units become sick so that they could identify the unit that really deserves financial help. There is a strong opinion that while losses up to a period of one year can be financed by the banks if the unit can become viable within that period, those whose losses continue beyond one year should not be taken up for assistance. Banks should only support and not supplant the initiative of the enterpreneurs in the sick units. After all, the process of revial mainly depends on enterpreneurial ability and therefore finance can be provided to those having initiative and drive.

To recapitulate, industrial sickness can be classified into (1) genuine sickness due to factors beyond the control of the project promoters and (2) sickness at birth due to the non-viability of the project and (3) induced sickness due to managerial incompetence. Cases under Item I deserve sympathetic considertion and every effort must be put them back on their feet. To realise this, however, it is essential that the Items 2 and 3 are not allowed to occupy much of the time of executives. The sooner these units are allowed to die the better it is for the entire community.

RECORD TRAFFIC FLOWN BY INDIAN AIRLINES

Indian Airlines is now transporting over 17,000 passengers daily — an all time record as the airline enters its 29th year of nationalisation. This is nearly 2,350 passengers more a day than the number carried during the same period last year. With this passenger traffic growth of 16 per cent over last year, the airline is estimated to cross the six million mark in 1981-82. This record was excelled in May 1981 when the airline carried on an average 18,200 passengers a day, the highest so far achieved since its nationalisation in August 1, 1953. The number of passengers carried daily in the first year of operation in 1953-54 was 1,181. Indian Airlines is now one of the largest regional airlines of the world with unduplicated route kilometres of 49,657. Over the years, the airline's capacity has grown manifold. While the total capacity (Available Tonne Kilometres) was 664 million, the airline carried 58,320 tonnes of cargo showing a 14.5 per cent growth over that of last year.

Economists Discuss Challenges of Eighties

THE Fifth Public Sector Bank Economists' Conference convened under the auspices of the Canara Bank was inaugurated by Dr. K. S. Krishnaswamy, former Deputy Governor, Reserve Bank of India at Hotel Ashok, Bangalore on September 18. Two issues of crucial importance to the banking industry in the eighties viz., (1) structural adequacy of the banking system to meet the challenges of the eighties, and (ii) the role of banks in rural development, were chosen for discussion at the Conference; the key paper on the former was presented by Dr. A. C. Parikh, Deputy General Manager (Planning and Development), United Commercial Bank, Calcutta, and that on the later by Dr. N. K. Thingalaya, Assistant General Manager (Economic Research and Planning), Syndicate Bank, Manipal. Besides the economists from the Public Sector Banks, the Conference was attended by the chairmen of some of the major banks in the country.

In his inaugural address Dr. Krishnaswamy assessed the world economic developments and the domestic economic scene as background for the discussion at the two business sessions of the Conference. He emphasised the necessity for combining the scientific approach of economists with the practical wisdom of bankers to evolve solutions to enhance banks' contribution to national welfare. He underlined the importance of engineering all developmental programmes in the context of high energy prices, uncertain supplies from agriculture, world inflation and capricious flows of international capital, particularly for a country of India's size. He drew attention in particular to the developments on the domestic front—inflation, depletion of food and foreign exchange surpluses, transport and power bottlenecks, shortages in the supply of essential raw materials and consumer goods, industrial and fiscal indiscipline, administrative inefficiency, unethical trade practices, and the singular lack of co-ordination in economic policies. However, he hastened to highlight the positive aspects of the national economy, such as the higher levels of production capacities in the agricultural and industrial sectors, diversified exports, high and growing inward remittances from abroad, and the existence of a network of financial and other institutions. He expressed optimism that with enough elements of strength in the national economy, it sould be possible for it to make the transition in the eighties from nagging uncertainty to confidence in the future.

Incidentally, he also briefly reviewed the impact of the various fiscal and monetary instruments—both of demand management and from the supply side in controlling inflationary pressures in the economy. On the future of banking, he expressed the opinion that apart from administrative and management considerations, banking structure has to be such as will facilitate the efficient discharge of functions devolving on the banking system as a result of fiscal and monetary policy decision taken by the authorities; banks have to move out of their traditional habits and areas of operation into entirely new areas.

He also indicated the areas in which the involvement of banks is likely to grow during the 1980s, and pointed attention to the need for application of a variety of technical expertise in the decision-making process, a greater co-ordination of the banking system with the activities of various governmental and non-governmental agencies, and the necessity for bank managements to take more explicit note of broader economic developments, both within the country and outside. He cautioned that it will become unavoidable for the banking industry to move away from its outmoded technology and get in line with the rest of the world.

At the two business sessions of the Conference, discussions were initiated by critical comments on the two key papers by two senior economists and two senior bankers. This was followed by further discussions and presentation of other views on the subject. Dr. Krishnaswamy presided over the session on "Structural adequacy of the banking system to meet the challenges of the eighties", and Dr. D. M. Nanjundappa Vice-Chancellor, Karnatak University, Dharwar presided over the session on "Banks and Rural Development". Mr. L. D'Mello, Chief Economic Adviser, State Bank of India, delivered the valedictory address.

VISL WIPES OFF LOSSES, MAKES PROFIT

During the year ended March 31, 1981, Visvesvaraya Iron and Steel Limited has not only wiped off the accumulated loss of over Rs. 9 crores but has also shown a profit. This was disclosed by Mr. R. A. Naik, Chairman of VISL at a press conference. The company's production, which stood at Rs. 79.58 crores in 1979 80, improved to Rs. 88.14 crores in 1980-81. The profits have improved from Rs. 4.93 crores to Rs. 5.20 crores. This is indeed creditable, considering that there was 80 per cent power cut during the first three months of the year. The company's sales have reached a record figure of Rs.84 crores. The company's Phase I of the optimisation scheme, which has been approved by the Government, will be implemented to raise the special steels production capacity from 77,000 tonnes to 1.02 lakh tonnes. In Phase II, this will go up further to 1.35 lakh tonnes.

Conditions of Bonded Labour

A labourer entering into bondage, committing his services for a minimum specific period to his employer is common phenomenon. However, the concept of "Bonded Labour System prevailing in many parts of the country is different from that of the general bondage system. In the BLS, a labourer generally commits his services to his employer against the borrowed loans. He is supposed to serve his master (employer) until the loans are repaid. But their (labourers) poor economic condition and ignorance, accompanied by the lack of any better alternative opportunity to earn their bread, do not give any scope for their freedom from the bondage. They remain perpetually indebted. Lack of any bargaining power makes them subservient to the whims and fancies of their employers. In fact, they become the means as well as objects of the process of pauperisation aad dehumanisation.

The system in rural India is nothing new but it has been an integral part of the rural socio-economic system for long. It was only after the introduction of the 20-point programme (in 1975) in which a provision was made to abolish the BLS that the evil has been attracting the attention of the Government and the intellectuals. Though the Bonded Labour System (Abolition) Act was adopted in 1976, not much progress has since been made on this front. The very basic requirement, in order to abolish the BLS, is to understand the incidence and nature of the bonded labour prevailing in many parts of the country. The book under review* fulfils this basic requirement.

The book is a report of the project on bonded labour undertaken by the National Labour Institute. The project, sponsored by the Gandhi Peace Foundtion, New Delhi, and the Academy of Gandhian studies, Hyderabad, was financed by the 'Bread For The World' of the Evangelical Church of Germany. Besides, many other research organisalions and Government departments have participated in this study.

The survey (for understanding the nature and incidence of bonded labour) has been conducted in the states of Andhra Pradesh, Bihar, Gujarat, Karnataka, Madhya Pradeso, Maharastra, Orissa, Rajasthan, Tamil Nadu and Uttar Pradesh. In the 10 states, 2,760 bonded labourers from 1,000 villages in 295 districts have been interviewed. Based on the samples, it has been estimated that there are 26.17 lakh bonded labourers in the ten states. The figures show that while U.P. has the largest number of bonded labourers, the percentage of bonded labour to the total agricultural labour is the highest (over 18 per cent) in the case of Orissa. The study covers variour characteristics of bonded labour. These are community and caste of the bonded labour, their sex, age structure, marital status, family size, loans, rate of interest, terms of bondage, purpose of loan, type of work, wage structure, assets, characteristics of their employers and Governments' endeavour to free the bonded labourers etc. Based on the findings, the analysis has been presented statewise as well as for the country as a whole.

In each of the ten states, different regions have been identified, based on the incidence of bonded labour. Some of the findings are quite astonishing. The findings reveal that while the incidence of bonded labour is quite high in the comparatively developed states of Andhra Pradesh, Gujarat, Karnataka and Tamil Nadu, it is quite low in the backward and the so-called feudal states of Bihar and Rajasthan. Even many of the agriculturally developed districts have a high incidence of the bonded labour. The most surprising finding is that even the district of Bangalore, Chingleput and Hyderabad, despite having metropolitan cities, account for the very high incidence of the bonded labour.

The book is quite informative about the varying nature and incidence of the bonded labour prevailing in many parts of the country. As such, it can be very useful for the government departments, financial institutions and voluntary organisations interested in abolishing the pernicious system. The estimated population of bonded labour being 26.17 lakhs, accounts for only 0.4 per cent of the total population. If a concerted effort under the IRDP is made in the affected districts, the system can well be abolished by the end of the Sixth Plan period.

— **A. N. Pandey**

---

* BONDED LABOUR IN INDIA by Sarma Marla, Bibilia Impex Pvt. Ltd., New Delhi, Pp. 227, Rs.85.

BOOKS RECEIVED

Investment Allocation in Indian Planning by A P Srinivasa Murthy, Himalaya Publishing House, Ramdoot, Dr. Bhalerao marg, Girgaum, Bombay-400 004, Rs. 90, Pp. 352.

India's Export Performance by K.S. Dhindsa, Intellectual Publishing House, Ansari, Road, New Delhi-110 002, Rs. 70, Pp.243.

Survey of Economy, Resources and Propects of South Asia by M.L. Quareshi, Marga Institute, Sri Lanka Centre for Development Studies, 61, Isipathana Mawatha, Colombo-9, Pp. 274, price not mentioned.

History of Economic Doctrines by G. Rakshit, The World Press Private Limited. 37A, College Street, Calcutta-700-073, Rs. 25, Pp. 131.

Development Finance For Small Farmers by N. Mohanan, Rainbow Publications, 471, M.T.P. Road, Coimbatore-641 001, Rs. 60 Pp. 298.

The Sandur Manganese & Iron Ores Limited

Speech by Shri Y. R. Ghorpade Chairman At the Twenty Seventh Annual General Meeting Held on September 25, 1981

Ladies and Gentlemen,

I have great pleasure in extending to you a warm welcome to the 27th Annual General meeting of the Company.

The turnover of the Company reached a record level of Rs. 17 crores for the year ending 31st March 1981, resulting in a net profit of Rs. 226 lakhs after providing for depreciation of Rs. 98 lakhs, as compared to a net profit of Rs. 224 lakhs after depreciation of Rs. 74 lakhs during the previous year. This result has been achieved in spite of various adverse factors and difficulties, including an average power cut of 30 per cent during the year, which was as high as 79 per cent during the first quarter of the year. The excellent reputation enjoyed by our products, especially our low phosphorous pig iron and ferrosilicon, has enabled the Company to safeguard its working results during the year, and declare a dividend of 12 per cent as against 10 per cent last year. I am grateful to all my colleagues on the Board and the financial institutions for their valuable guidance and support. I am happy that the Board of Directors have, on more than one occasion, expressed their appreciation of the good work done by the Managing Director, Officers and employees of the Company.

I have to, however, bring to your notice that towards the latter portion of this financial year, the Karnataka Government and the State Electricity Board decided on a sudden and steep increase in the power tariff, by passing an ordinance in November 1980 and by further increasing the rates in February 1981, as a result of which the monthly power bill of the Company has gone up from Rs. 44 lakhs to Rs. 74 lakhs, amounting to an increase in the annual power charges from Rs. 5.3 crores to Rs. 8.9 crores. This is in total disregard of the existing agreement between the Company and the State Electricity Board for supply of power at an agreed rate, on the basis of which it was possible for the Company to attract adequate investment from financial institutions and other shareholders for the establishment of an electrometallurgical industry in Karnataka, at a capital cost of approximately Rs. 13 crores. It may be recalled that the Company had entered into a 10 year agreement with the Electricity Board in 1968 for supply of power to its 15,000 kVA pig iron furnace, and a 12 year agreement in 1972 for supply of 40,000 kVA power to its Ferrosilicon furnances. Later the Company itself agreed to a revised agreement, which came into effect from 1975, and which not only increased the power rate, but also provided for a reasonable escalation in power rates every five years, in proportion to the general increase in rates for high tension consumers. As a result of this revised agreement, the power rate was increased from 5.5 paise per unit in January 1975 to 12.71 paise per unit in January 1980 (excluding Central Excise duty of 2 paise per unit and State duty of 0.75 and 0.25 paise per unit for pig iron and ferrosilicon respectively). This rate is revisable upwards in 1985 on the principle of proportionality, which is clearly spelt out in the existing agreement. But the rates were abruptly and unilaterally stepped up to about 20 paise per unit in November 1980 and to 27 paise per unit (inclusive of Central excise and State duties) in February 1981. The Company has represented to the State Government and the Karnataka Electricity Board in this regard, urging them to take a just and equitable view, consistent with our existing agreement. I do believe that scrupulously honouring commercial agreements is a necessary part of orderly economic development and credibility in any country, and is in the best long-term interest of speedy industrial growth and progress.

As you are aware, our second ferrosilicon furnace went into production in September 1980, completing the Rs. 10 crore Ferrosilicon Project for the production of 24,000 tonnes of ferrosilicon per annum in two 20 MVA furnaces. However, as a result of power cut, the Company was able to produce 29,000 tonnes of low phosphorus pig iron and 12,000 tonnes of ferrosilicon during the year. The domestic market for ferrosilicon continues to be sluggish and the import of ferrosilicon by the Steel Authority of India Limited also affected the internal demand. Now, export of ferrosilicon is being permitted but the international prices are not attractive. However, it is expected that the demand for ferrosilicon will pick up both in the internal and external market with the improvement in steel production.

As regards manganese ore, the Company has to maintain a certain level of production in order to sustain its large labour force of about 3000 employees at the Mines, and keep the unit cost of production within reasonable limits. The geological prospecting and quantitative surveys undertaken by the Company have revealed that the reserves of low-grade manganese ore (30 per cent to 40 per cent Mn.) in our mining concession, run into millions of tonnes, and are more than adequate to sustain our present exports and also take care of the future needs of the steel plants in the South. In view of this, the Government of India should reconsider its policy of restricting manganese ore exports, especially of low-grade ores, which are available in abundance and can earn valuable foreign exchange while providing labour-intensive employment. Our mines are geared to a production of about 2 to 2.5 lakh tonnes of manganese ore per annum. However, due to export limitations which have weakened the position of Indian manganese ore in the world market, the production and sales of manganese ore of the Company have also been adversely affected. The Minerals and Metals Trading Corporation of India Limited, through whom manganese ore exports are canalised, is working under the same limitations, as a result of which the export of Sandur manganese ore during the year was only 86,000 tonnes, apart from 35,000 tonnes supplied to M. M. T. C. at Vizag for blending, and sale of 8,000 tonnes to local ferromanganese producers. Smiore has represented to the M. M. T. C. that they should consider giving a more realistic rupee price to the Company, by their retaining only a reasonable commission, so that the foreign prices obtainable for its manganese ore are substantially passed on to the Company, to enable it to sustain its large labour force without incurring losses in the manganese ore division. The Company is also catering to the local demand for its ores from ferroalloy producers. In due course the steel plant at Visakhapatnam and the proposed Vijayanagar Steel Plant in the Sandur-Hospet region are expected to enlarge and strengthen the local demand for our manganese ore. The Company is making efforts to benefiiciate its low-grade ores in order to improve its local sales and achieve a better balance between production and sales.

In spite of all the problems that the Company has had to face, it has largely succeeded in maintaining and improving the standard of living of its employees, even under the present inflationary conditions. The Company continues to supply the following essential commodities to its employees at prices prevailing in March 1972: Rice (Rs. 1.40 per Kg), Jowar (Re. 0.75 per Kg.), Tur Dhal (Rs. 1.80 per Kg.), Jaggery (Rs. 1.38 per Kg), Sweet oil (Rs. 3.63 per litre), Chillies (Rs. 2.96 per Kg) and Gram Dhal (Rs. 2.00 per Kg). The difference between these and current prices are subsidised by the Company. A package of these essential commodities, which each employee is entitled to, is supplied at Rs. 70 while it costs Rs. 180 in the open market. The subsidy amount has gone up from Rs. 17 lakhs in 1979-80 to Rs. 31 lakhs in 1980-81 and will be Rs. 60 lakhs in 1981-82. This is the real measure of inflation in terms of some essential commodities which form an inevitable part of consumption. This approach of the Company to protect the worker from the ravages of inflation has been widely welcomed by all our employees and is capable of wider application in the country. The Company also runs canteens at different workspots and supplies eatables at subsidised rates. Idly, Vada and Tea are supplied at only 5 paise each. In addition, revised pay scales were introduced from 1st July 1981 in order to rationalise the salary structure on a scientific job-evaluation basis and ensure adequate annual increments and career progression.

The Company caters to the all-round development of its employees by undertaking a variety of welfare measures in the field of housing, education, health, nutrition, recreation and cultural activities. A sustained effort is made to improve the housing facilities both at the Mines and Metal and Ferro Alloys Plant. Last year about 350 new quarters were completed at the Mines and it is proposed to build another 500 quarters in the coming years. At the Metal and Ferro Alloys Plant, 100 houses have been completed and another 150 are under construction, as part of a modern housing colony at Vyasapuri with facilities such as school, hospital and other amenities. The colony will be completed in a phased manner over the next few years. It shall be our earnest endeavour to make Vyasapuri not only architecturally elegant but culturally rich and sensitive, based on values which reflect the heritage of Karnataka and our country, and are conducive to a happy community living aud striving towards perfection. The Company has also introduced a scheme of housing loans to its employees who have put in a reasonable period of service. These loans, not exceeding 40 months' salary, carry a low interest rate and are recoverable in monthly instalments spread over 12 years. This is to enable the employees to own their own houses, which contributes greatly to their sense of security and well-being, at a time when it is becoming increasingly difficult to construct houses out of current savings. Interest free loans are also given to employees to enable them to possess a cycle and a sewing machine.

The Company runs and supports educational institutions at the Mines, Plant and Sandur, and also provides scholarships for post-matric studies to the children of its employees. Particular attention is paid to child-nutrition by supply of milk to all school-going children, as part of a comprehensive programme for the welfare of children, women, disabled and the aged. The Company wants to pay special attention to providing training for skills and productive employment, to supplement the family income of employees. It is already providing extension services in agriculture and animal husbandry with the same objects in view. The scheme to enable employees to maintain a small poultry unit and a milch animal has made very good progress. One thousand family poultry units have come into existence, and more than a hundred employees have been enabled to own and maintain a milch buffaloe, and these numbers are on the increase.

Smiore attaches special importance to the growing of plants and trees wherever possible and to the development of environmental conciousness among its employees. Our Prime Minister, Smt. Indira Gandhi, made a powerful plea for the preservation of environment, in her recent address at Nairobi to the United Nations Conference on New and Renewable Sources of Energy. She expressed her great concern for trees by saying: "If the laws of nature are thwarted, renewable sources will be exhausted. The indiscriminate felling of trees had denuded our forests with disastrous ecological imbalances affecting the very quality of life. In its sternest form nature retaliates against the scars of treeless mountain-sides, causing landslides

(Contd. on page 29)

WORLD BANK REPORT

LDCs Overtake Richer Nations in Economic Growth Despite Export Hurdles, Oil Price Hike

ECONOMIC growth during 1980 in the developing countries outpaced growth in the industrial countries by more than threefold, the World Bank's *Annual Report* for fiscal year 1981 reported on September 21, 1981. This achievemeet was made in the face of a staggering number of economic problems: recession in the industrial countries, high energy costs and interest rates, volatile exchange rates, reduced levels of growth in world trade, and sharply declining prices in the second half of the year of several primary products. The resilience that the economies of the developing countries showed in achieving their aggregate 4.6 per cent growth is characterized by the World Bank as "remarkable."

But marring the optimistic picture painted by overall gains are a number of negative elements. Many lower-middle income countries (those with a *per capita* gross national products of between $ 371 and $680) were faced with serious problems as prices of primary products began to decline. Individual incomes in the low-income countries of sub-Saharan Africa actually declined. Massive current account deficits run up by the oil importing developing countries threatened to upset investment programmes needed for future development.

The 4.6 per cent growth rate, the *Annual Report* concludes, can therefore be regarded as remarkable only when compared with the 1.3 per cent record of growth in the industrial countries and when viewed against the unfavourable economic climate in which it was achieved. The World Bank notes that growth of developing countries in 1980 was less rapid than during the period 1974-79, which, in turn, was a period of slower growth than in the record years of 1966 through 1973. The economic bright spots in the round up for 1980, as reported in the *Annual Report* include:

☐ Continued high rates of growth by the countries of East Asia and the Pacific (with the exception of Korea), especially those smaller states that have export-oriented economies;

☐ The Latin American and the Caribbean region where aggregate growth rates advanced 5.4 per cent, about the same rate as in the previous year;

☐ Most Countries in North Africa and the Middle East, led by Syria and Egypt, both of which benefited from higher oil prices; and

☐ The South Asia region, where the Indian economy boomed in 1980 as agricultural output bounced back from a bad harvest in the previous year.

Perhaps nowhere is the volatility of the recent economic environment more clearly displayed than in the massive shifts in current account balances—balances on goods, services, and private transfers. In 1978, the six capital-surplus oil-exporting countries—Iraq, Kuwait, Libya, Qatar, Saudi Arabia, and the United Arab Emirates—had a surplus on current account of $ 19 billion. By the end of 1980, the estimated surplus amounted to more than $ 100 billion. In 1978, the industrial countries had a surplus of $ 30 billion. By the end of 1980, not only had that surplus vanished, but in its place was a deficit of $ 40 billion. In 1978, the current account defict of the oil-importing developing countries totaled $ 26 billion. By the end of 1980, it stood at $ 70 billion.

In separate analyses of the six regions of the developing world (West Africa, East Africa; East Asia and the Pacific, South Asia, North Africa and the Middle East, and Latin America and the Caribbean), the World Bank's *Annual Report* provides details on how individual countries are beginning to cope with the necessity of restructuring their economies in the face of severe economic problems.

☐ In Senegal, an increase in public savings is being sought; expansion of credit and foreign borrowings are to be curtailed; the public investment programme is to be trimmed and its composition will be tilted toward more directly productive sectors; projects will be selected according to more rigorous cost-benefit analysis.

☐ Tanzania has drawn up an adjustment programme designed to rehabilitate primary exports by improving incentives to producers and earmarking the limited supply of foreign exchange for the purchase of critical imported inputs.

☐ Thailand, a large importer of petroleum, is moving rapidly to bring energy prices into line with international levels; gasoline prices were doubled from 1979 to 1980; domestic gas and lignite resources are rapidly being developed.

☐ In Pakistan, various incentives have begun to stimulate private

---

(Contd. from page 28)

and devastating floods and silting dams and rivers. Rainfall begins to dwindle and the desert resumes its deathly march". Towards the end of her inspiring address, she significantly struck a spirutual note by posing a question most fundamental to the future of mankind: "We speak of renewable resources. Isn't the human spirit the most potent of them all? Let us join in invoking the human spirit, in rescuing it from apathy and resignation and making it buoyant and spontaneous once again". Smiore wholeheartedly joins in the invocation and pledges to do its bit in this exciting challenge of life and renewal.

Thank you,

Y. R. GHORPADE

Yeshwantnagar,
September 25, 1981

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.

investment and exports, while tougher standards of financial performance are reducing inefficiencies in the public manufacturing sector.

☐ Morocco's adjustment programme has mandated limits on borrowing at commercial terms, and includes a shift in investment priorities in favour of energy, rainfed agriculture, export-oriented, labour-intensive industries, and projects that require shorter gestation periods.

☐ Three Latin American oil importers—Argentina, Chile, and Uruguay—have adopted policies of positive real interest rates that have increased domestic savings, stemmed capital flight, and encouraged inflows of private capital from abroad.

The World Bank's *Annual Report* cautions, however, that the adjustment problems confronting the oil-importing countries will continue to be severe. These countries, says the World Bank, face a dilemma: if they rely heavily on external borrowings—presumably primarily from private sources—they may face problems in managing their debt. On the other hand, if they rein in their import demand sharply so as to make the necessary economic adjustments, they will almost inevitably reduce their own growth rates, while contributing to the contraction of output in the industrial countries.

India's Resilience

INDIA'S economy rebounded in the fiscal year 1981, achieving growth rates in gross national product (GNP) estimated at between 7 and 8 per cent, according to the World Bank Annual Report released on September 21. Growth was achieved mainly in agricultural production, although industry, while slower to recover from the previous year's depressed level, also experienced gains, the Report notes.

Commenting on India's overall economic health, the Report observes that the country's agricultural and industrial bases are considerably broader than in the past. During the fiscal year (ending June 30, 1981), imports of food grains were gradually eliminated while buffer stocks were established, rates of gross investments and national savings climbed to 22 per cent of GNP, substantial foreign exchange reserves were built, and external debt was at very low levels. At the same time, the Report points out that balance-of-payments present a serious problem, as the current account deficit rose sharply and exports, while registering increases, were "insufficient to counter the deterioration in the terms of trade." Structural problems persit, as well such as a high incidence of poverty ($ 190 *per capita* in-

Look how PSB is getting to be No.1 in your affections!

". . . proved that saving even ten rupees a month was good enough to buy myself a present"

The effortless way to save. A Recurring Deposit Scheme gives high interest rates too.

". . . came home to teach children the first lesson in savings"

The Chhoti Bachat Scheme. Re. 1 a day becomes Rs. 1826 plus interest in 5 years—without your having to step outdoors.

ASP-PSB/202 81A

PSB—The name of total banking service

PUNJAB & SIND BANK

(A Government of India Undertaking)

come), strained economic infrastructure, insufficient production of commodities such as cooking oils, fertilizer, cement and steel, continuing population pressure. Neverheless, the Report states, the economy is "substially stronger than a half decade ago" and will be better equipped to "weather the effects of the harsh external environment"—largely the result of steep increases in the volume and price of oil and fertilizer imports.

Rest of South Asia

On the economy of the South Asia region, the World Bank Annual Report states that the countries enjoyed an encouraging expansion in total output and *per capita* growth, recovering from the drought-induced declines in 1979. The growth was particularly "notable" since it occurred despite a sharp rise in the price of petroleum products on which the region depends heavily. The Report says that "during 1979 and 1980, the petroleum-import bill of South Asian countries jumped 80 per cent; in these two years, the share of earnings frow merchandise exports absorbed by oil imports increased from around 45 per cent to 70 per cent." The Report points out that favoarable weather for most of the region during this period was a key factor in the impressive agricultural performance. Also, government policies, combined with agricultural growth, spurred development in other sectors. It warns, however, that because of a "profound deterioration in balance-of-payments"—caused by a rise in energy prices and world inflation—countries should "intensify efforts for reorganizing their economies." Moreover, it calls on the international community to step up support "to facilitate the necessary process of change that has come to be called structural adjustment."

India, Top Borrower From IDA

THE World Bank and is affiliates — the International Development Association and the International Finance Corporation — increased their lending commitments in fiscal year 1981 eight per cent, to 13,102 million dollars, according to the Bank's 1981 Annual Report. The principal borrowers from the International Development Association in fiscal 1981 were India with $ 1,300 million $ 202 million and Egypt with $ 198 million.

The lowest-income countries received 35 per cent of the combined amount in the fiscal year ended June 30 — about the same as in the previous two years and significantly above the levels of the past. These countries recelved 87 per cent of commitments from the International Development Association (IDA), the World Bank affiliate that makes low-cost loans to poorest developing countries. Of the overall fiscal 1981 commitment of 13,102 million dollars, the Bank itself accounted for $ 8,809 million, IDA $ 3,482 million, and the International Finance Corporation, which loans to private sector projects, $ 811 million.

Looked at by sectors, agriculture and rural development absorbed by far the largest share of Bank and IDA commitments — 31 per cent — reflecting the Bank's continuing concentration on projects to improve the productivity of the poor. In the years through 1968 this sector received only eight per cent of Bank and IDA commitments. Other leading sectors in 1981 included education, with six per cent of total commitments (compared with one per cent in the period through 1968), and oil, gas and coal projects, with five per cent of total commitments (also up from one per cent in the past). Electrical power and transportation projects still absorbed substantial shares in fiscal 1981 — eleven and nine per cent, respectively — but these were far below the 30 and 32 per cent shares they took in the years through 1968.

Within the agricultural and rural development sector, one of the fastest growing areas of activity of the Bank is in agricultural research. The Bank's executive directors, according to the Report, "have recognized that the World Bank must take the lead among international institutions in supporting national research". Plans call for a steady increase in commitments to this area, from about $ 330 million in fiscal 1979 to $ 550 million in fiscal 1984 (in constant U. S. dollars-in other words, after adjusting for inflation). The emphasis in Bank-supported research projects is to be on food crops, low-income groups and low-cost technologies.

The Bank is pursuing its plans to increase lending in the energy sector, as indicated by the figures for oil, gas and coal projects. One of the other areas of concentration in this sector is the production of fuel wood. The Report estimates that a five-fold iecrease in the present rate of planting would be needed to ensure a reasonable balance between the demand for fuel wood and the supplies of it in developing countries by the year 2000. The Bank hopes to continue to expand its lending for fuel wood so as to help the developing countries to at least double the present rate of reforestation by 1985.

The Bank's lending programme for fiscal years 1981-85 for all energy-related projects calls for commitments of 13,000 million dollars. Previously, the Bank had said that commitments of as much as 25,000 million dollars in this sector would be "desirable", but the report said this level "could not be financed by the Bank without upsetting the overall sectoral balance of its lending". A Bank spokesman said another reason is that technical resources and personnel have not been available.

The Annual Report, which covers Bank activities through June 30, 1981, does not reflect the fact that the sixth replenishment of IDA, to provide funds for fiscal years 1981 83, has gone into effect. The sixth replenishment became effective after the United States in August, gave IDA its commitment to contribute 3,240 million dollars, or 27 per cent of the total. The U.S. Congress did not complete legislative action on the U S. contribution until August.

INCAB Achieves Breakthrough in Exports

THE Indian Cable Company Limited registered a 13.4 per cent increase in its turnover and 52.8 per cent increase in its pre-tax profit during the year ended March 31, 1981. Against the sales worth Rs. 47.26 crores in 1979-80, INCAB's sales in 1980-81 amounted to Rs. 53.61 crores. The pre-tax profit, which stood at Rs. 2.77 crores in 1979-80, improved to Rs. 4.24 crores in 1980-81. The equity dividend has been stepped up from Rs. 1.40 per share to Rs. 1.70 per share. During the year, the company increased its exports by 87 per cent, from Rs. 1.09 crores to Rs. 2.04 crores. But for the slower offtake by the state electricity boards in the latter part of the year and power cuts at Jamshedpur and Pune, the company's performance would have been still better. However, the company's order book position is very good for 1981-82. ICICI has sanctioned a term loan of Rs. 60 lakhs to the company for the implementation of its project to manufacture 800 KM of PVC power cables at its Pune works. It is expected to be completed during the current financial year.

Sandur Manganese Earns Higher Profit

The year 1980-81 was a good one for the Sandur Manganese & Iron Ores Limited. During the year, the company earned a net profit of Rs. 2.26 crores, on a turnover of Rs. 17 crores. The previous year's net profit was Rs. 2.24 crores. The equity dividend has been stepped up from 10 per cent to 12 per cent. The financial results of the company have been affected by the increased power tariff. The power bill has gone up from Rs. 5.3 crores per annum to Rs. 8.9 crores. The Chairman, Mr. Y.R. Ghorpade, has complained that this unilateral increase in the tariff is unfair and is inconsistent with the company's agreement with KEB. He is hopeful that the setting up of a steel plant at Vijayanagar will strengthen the demand for the company's products, particularly manganese ore.

K. R. Mills Skips Equity Dividend

THE turnover of Sri Krishnarajendra Mills Limited during the year ended March 31, 1981 stood at Rs. 10.72 crores, against Rs. 9.02 crores in the previous year. The company also exported cloth worth nearly Rs. 30 lakhs. The gross profit, at Rs. 18.35 lakhs, is only marginally higher than that of the previous year. In view of the inadequate profit, the company has skipped the equity dividend. Power cuts and increased cost of imported staple fibre have affected the results. The company is changing its product-mix and also carrying out a modernisation programme costing Rs. 2 crores. This augurs well for 1981-82.

Indian Rayon's Sales Improve Marginally

There has been a marginal increase in the sales turnover of the Indian Rayon Corporation Limited from Rs. 60.53 crores in 1979-80 to Rs. 61.70 crores in 1980-81 (year ended June 30). The company's performance would have been better but for a strike in its Rishra units and at its Rayon Division at Veraval. The company's gross profit was a shade lower, at Rs. 8.68 crores in 1980-81, against Rs. 9.25 crores in 1979-80. The net profit stood at Rs. 4.74 crores, against Rs. 4 crores in the previous year. Equity dividend has been pared from Rs. 16 per share to Rs. 15.

The company has received a licence for increasing the capacity of viscose filament yarn from 4,000 tonnes to 7,300 tonnes and Carbon Di Sulphide from 1,829 tonnes to 2,730 tonnes. The company is expanding the capacity by 3,200 tonnes for manufacturing high rated bushings and insulations at Rishra, West Bengal. This expansion is likely to be completed by the last quarter of 1981.

The company proposes to sign a collaboration agreement with Doulton Insulators Limited of U. K. for this range of insulators. At Halol, Gujarat, the new insulator unit has started commercial production. The company has secured a letter of intent for putting up a 5.41 lakh tonne Cement Plant in Karnataka. Steps for the acquisition of land and mining lease have been taken. Application for the import of critical equipment has already been made. Financial arrangements are being tied. According to the present schedule, the plant should go into production within two years from receipt of the import licence.

Tomco Shifts Emphasis To Toilet Soaps

AS already reported briefly in these columns (Company Notes, August 15). 1980-81 was an excellent year for the Tata Oil Mills Company Limited. The company's turnover increased from Rs. 105.95 crores to Rs. 150.65 crores. The pre-tax profit improved from Rs. 3.32 crores to Rs. 4.77 crores while the after-tax profit stood at Rs. 2.40 crores, against Rs. 1.51 crores in the previous year. The equity dividend has been maintained at Rs. 5 per share. As Mr. J.R.D. Tata, Chairman, observed in his annual statement, the company's excessive dependence on laundry soaps has not been very profitable. As such, it is diversifying into more sophisticated fields like toilet soaps and detergents. In 1980-81, the company introduced in the market a new range of carbolic and non-carbolic soaps which have been well received.

SOUTHERN
ECONOMIST

October 15, 1981

CONTENTS

EDITORIALS 1
Economy in the Doldrums?
Commonwealth Consensus
Indo-Ghanian Relations

CURRENT TOPICS 3
North-South Dialogue ; IMF Loan ;
Cauvery Dispute ; LIC's Record

Has Indian Journalism Come of Age? 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Rural Poverty in India—An Analysis
By G. Dharma Rao

Unemployment through Five Year Plans: Can the Trend be Reversed in 80s?
By Ram Vichar Sinha

Growth of Public Expenditure in India
By D. R. Misra and V. K. Singh

BOOK REVIEWS 20

R B I ANNUAL REPORT: 1980-81 22

BANK RESULTS 27
Allahabad Bank ;
Indian Overseas Bank ;
Grindlays Bank ; Union Bank

COMPANY NOTES 28
Mysore Cements ; ACC-Vickers-Babcock ; Glaxo ; Shetty Investment ;
Ashok Leyland

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone : 52330

Published on
1st and 15th of every month

Subscription Rates :
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Information Service
1981

Economy in the Doldrums?

THE trends delineated by the Reserve Bank in its annual report covering the period, July 1980 to June 1981, lead to the diagnosis of the country's economic malaise as basically one of mismangement. Indicators do not strengthen the view that the crisis facing the nation is wholly due to extraneous factors or factors over which one has no control. The gross national product has risen by an estimated 7 per cent in 1980-81 against 4.5 per cent in the previous fiscal year. Foodgrains production has risen by as much as 24 million tonnes to reach an estimated level of 133 million tonnes and industrial production has increased by 9.5 per cent in the first five months of 1981, compared to a decline of 3.4 per cent in the corresponding period, in 1980. Infrastructure industries have shown some improvement although it cannot be said that they are being run at the peak of their efficiency.

If, inspite of this upturn, one still witnesses a crisis atmosphere in the country, the reasons for the malaise lie, to a very large extent, in policy errors, managerial lapses and attitudinal constraints. Take the price situation. The Finance Minister is fond of saying that inflation has been rolled back into a single digit but this claim is not fully borne out by the price indices given in RBI's annual report. The average increase in the wholesale price index in 1980-81 is of the order of 16.6 per cent, against 20.2 per cent in 1979-80. But, on a point-to-point basis, the price-rise in 1980-81 is 11 per cent, compared to 23.2 per cent in the previous year. That the consumers have not benefitted from the apparent decline in wholesale prices is evident from the higher rate of increase in the consumer price index in 1980-81. A look at the price indices of selected commodities in July 1981 reveals that practically all the items that enter the bread basket of the housewife — rice, wheat, millets, pulses, milk, eggs, fish, meat, chillies, sugar, vanaspati, edible oils and mill cloth — have risen by 10 to 40 per cent during the year. In the normal course, the expectation of a bumper harvest should have led to a de-hoarding of stocks but this has not happened.

While supply constraints have played their part, the main thrust for the continued price-rise has come from the high rate of growth in money supply — 18.8 per cent against 15 per cent in the previous year — caused by the budgetary deficits which had to be covered through created money. The Reserve Bank's report leaves one in no doubt about this fact. The sharp depletion of food stocks — they stood at 13.6 million tonnes at the end of June 1981 — and the Government's inability to procure enough food grains from the surplus states have created a difficult situation. While a strengthening of the public distribution system is necessary to protect the vulnerable sections, efforts to replenish the buffer stocks through imports may turn out to be counter-productive. Import of wheat, sugar and edible oils in sizable quantities have only led to a depletion of exchange resources without providing any respite on the price front. Where supplies are not managed properly, shortages get magnified and the resultant price increases will be out of proportion to actual demand-supply imbalances.

The most worrisome aspect of the economic crisis is the growing trade deficit. From Rs. 2,284 crores in 1979-80, it has doubled to Rs. 5,535 crores largely due to the rise in imports by as much as Rs. 3,712 crores and the poor growth in exports. Imports of oil alone accounted for Rs. 5,118 crores, out of a total import bill of Rs. 12,210 crores. In view of the persisting recessionary conditions abroad, it may not be possible to step up exports to the desired extent. With invisible earnings — particularly remittances from Indians working abroad — showing a softening trend, one is inclined to agree with RBI's assessment that "the current trend in the deterioration in the balance of payments is unlikely to be reversed during the next two years." Attempts at getting over the hump will be helped by sizable external financing — the proposed $ 5.7 billion IMF loan readily comes to one's mind —but such massive loans are likely to distort the balance of payments picture at a future date.

The soft options hinted at in RBI's report, like supply management through marginal imports, will not just work. What is needed, on the other hand, is a sustained effort to (a) curb the influence of black money (b) create new capacities and improve capacity utilisation in areas of shortage and (c) step up the production of oil so as to reduce the country's dependence on oil imports. There is no escape from austerity all round.

Commonwealth Consensus

GIVEN the limitations of a loosely-knit association like the Commonwealth, one is heartened by the outcome of the Melbourne conference which concluded on October 6. True, there is nothing either in the "Melbourne Declaration" released two days before the conclusion of the Commonwealth "summit" or in the final communique issued at the end of the meeting, which would bind a member-country to a particular line of action. But the very fact that members of an association representing nearly a quarter of the human race were able to evolve a consensus on the major political and economic issues confronting the world is not without significance. The Commonwealh leaders were meeting at a time when the Super Powers have struck rigid attitudes on issues like controlling the arms race and providing multilateral aid to the poorer nations. Considering that the richer members of the club are also members of the western alliance, the temptation among them to toe the Reagan-line was great. But, with the exception of Mr. Robert Muldoon, Prime Minister of New Zealand, the richer members adopted a very helpful attitude *vis a vis* the issues affecting the Third World.

On divisive issues like Kampuchea, Poland, Namibia and Afghanistan, the consensus that emerged was less than satisfying. But there was no polarisation of views along rigid lines. The somewhat ambivalent stand that India took on Soviet aggression in Afghanistan and Viet Namese presence in Kampuchea may not have been to the liking of some of the members. None the less, there was a genuine desire to understand each other's point of view. By and large, India's stand, ably put forward by the Prime Minister, Mrs. Gandhi, on the de-stabilising effect of the supply of sophisticated weapons by the super powers to their client states in the region and on the unhelpful aid policies of the richer nations was endorsed by most members. In fact, the "Melbourne declaration" reflected India's stand on many of these issues. In a sense, Mr. Muldoon was right in characterising the Declaration as platitudinous but even an expression of platitudes, in chorus, has its beneficial effect. Coming, as it does, on the eve of the Cancun "summit" — the North-South dialogue which will open next week in Mexico—the Melbourne declaration virtually serves notice on the recalcitrant rich that nations representing one-fourth of the world's population have already arrived at a consensus on what needs to be done to prevent a confrontation between the North and the South on the one hand and the East and the West on the other.

Indo-Ghanian Relations

THE visit to India of the Ghanian President, Mr. Hilla Limann this week has been fruitful in many respects. Politically, it highlighted the fact that on most international issues, India and Ghana hold almost identical views. In general, India has always supported the liberation struggles of African countries. The policy has won the appreciation of the African leaders. Historically, Ghana has maintained equidistance between the super-powers — a fact which is well appreciated in New Delhi. In the economic field, there is vast scope for enlarging the area of cooperation. The trade agreement signed between the two countries during the Ghanian President's visit recognises this fact. The agreement envisages the import of several agricultural and mineral products from Ghana. India's exports will cover a wider variety of items, ranging from pepper and cardamom to feature films and leather. Equally significant is India's export of know-how to Ghana. HMT proposes to set up a manufacturing facility there and many other Indian firms have evinced interest in participating in the projects coming up in Ghana.

CURRENT TOPICS

Dark Shadows over Cancun Meeting

THERE are faint hopes that the North-South summit meeting, to be held at Cancun, Mexico, next week, will at least enable the representatives of the poor nations to air their views on the problems of the 80s. It may be recalled that the proposal to arrange for a North-South dialogue was first mooted by the Brandt Commission in its report "North-South : A Programme for Survival", presented last year. Although the richer nations endorsed this proposal and extended their cooperation in convening such a "summit" meeting, they are unlikely to come up with any radical proposal to deal with the problems facing the countries of the Third World. The major hurdle to any unorthodox approach remains the policies of the Reagan Administration whose economic philosophy does not quite square with the generally held views on how to help the poor nations.

However, three recent developments have helped to strengthen the position of the Third World. Firstly, the representatives of the rich nations, who met at the Ottawa "summit", committed themselves to a liberal position on matters of trade and aid. Secondly, the leaders of the Commonwealth countries, who met at Melbourne early this month, arrived at a consensus not only in favour of a serious dialogue between the North and the South but have also called for urgent action to effectively tackle the problems of hunger and poverty. Thirdly, the recent U.N. meeting on the least developed countries has also spelled out what needs to be done to help the poorer nations.

It is against this background that the select gathering of the world's rich and poor nations, numbering 22, will be grappling with the major issues affecting the Third World. As agreed to, at the preparatory meeting held at Cancun in August, the North-South summit is being held without a rigid agenda. While there will be frank exchanges on issues like the world food shortage, energy strategy, balance of payments deficits of the poor nations, hurdles to the exports of LDCs, multilateral assistance and so on, agreed positions will not be documented in a "final communique", as is generally done at most conferences of this kind. Admittedly, these are concessions to the United States whose participation at the Cancun summit is now assured.

It would be too much to expect, however, that the United States will deviate from its stated position that (a) there has to be a shift from multilateral assistance to bilateral assistance and (b) private investment should, wherever possible, replace government-to-government aid. The United States, being the major aid-giver, is eepected to provide the lead but, as the outcome of the Fund-Bank meeting reveals, the Reagan Administration is going ahead with drastic budget cuts which inevitably result in a reduced level of allocations for multilateral lending institutions like the World Bank and its affiliate, IDA. Similarly, there is unlikely to be any liberalisation in the U. S. stand on trade with LDCs. Although there have been successive rounds of tariff reductions under GATT and the developing countries are allowed greater access into the markets of the developed countries through the Generalised Scheme of Preferences, non-tariff hurdles serve to shut out many of the items, especially manufactured goods, exported by the LDCs. Industrial nations which are confronted with a high level of unemployment at home cannot be expected to come up with any radical proposal which will have the effect of reducing the barriers to the exports of the poorer nations.

The immediate problem facing the non-oil producing developing countries of the Third World is that of coping with their widening balance of payments deficits. The poor credit rating of many of them, coupled with the prevailing high interest rates, rules out the possibility of their borrowing any sizable amount of funds from the private Eurocurrency markets. If they are denied access to multilateral assistance on the required scale, they will be compelled to cut down even their essential imports. By dampening the exports of the industrialised countries, this will prolong the recession facing them. There is hope that, at Cancun, the Reaganites will be persuaded by their European friends —Particularly France which holds views that are diametrically opposed to those of the U. S. — to adopt a more conciliatory approach on matters affecting the Third World. In sum, the success of the Cancun summit will be measured on whether it achieves a breakthrough in the matter of (a) helping the developing countries to reduce their BOP deficits through concessional, long-term aid and (b) providing a frame work for speeding food aid to countries facing certain starvation.

Does IMF Management Call The Tune?

WE continue to hold the view that a loan from IMF — however big it is — is not calculated to harming the interests of a member country and the conditionality attached to such a loan need not be viewed as an infringement of the sovereignty of the borrowing nation. After all, IMF loses its *raison d' etre* if does not come to the aid of a member-country facing balance of payments difficulties. And, considering the size of India's BOP deficit and the problems of structural adjustment that the country is facing, we do not think that the size of the loan is too big for its needs.

However, the entire atmosphere is vitiated by (a) the arm-twisting indulged in by the Reagan Administration and (b) the hush–hush manner in which the Finance Ministry is conducting the negotiations for the loan. Without even knowing the terms put forward by IMF and India's response thereto, the U. S. Treasury Secretary, Mr. Donald Regan, dropped a brick by saying that the loan, being unusual in many respects, needs to be processed thoroughly. There was, in this statement, an implied suggestion that the White House would be happy if IMF either rejects the loan outright or slashes it to a smaller size. Coming as it did from the largest share holder of the Fund, Mr. Regan's warning had the desired effect. The processing of the loan has been delayed and its consideration by the Executive Directors has been put off till November 9.

Meanwhile, one of the Executive Directors — presumably, the spokesman of a leading member-nation — has spilled the beans. He has handed over the entire 69-page document containing (a) the "letter of intent" signed by the Finance Minister; (b) the statement of economic policies pursued or proposed to be pursued by India (c) the evaluation of the loan proposal by the IMF staff to a Washington-based correspondent of a leading Indian newspaper. By itself, the letter of intent, submitted on September 28, is innocuous. It briefly explains the reasons which prompted India to seek an extended facility from IMF, juxtaposes the plus and minus points of the Indian economy and concludes with just a gentle hint that India is ready to dot the "i" s and cross the "t"s. Therein lies the rub. The letter of intent makes a cross-reference to the "statement of economic policies"—a 15-page note—which is not fully published by the daily which got hold of the 69-page document. Any sweeping comment on the published summary would therefore be unfair to IMF, to Mr. Venkataraman and to the Government of India.

For the record, the dimensions of the proposed loan may be briefly stated. The Rs. 4,500 crore loan, if approved, will be released in three instalments — Rs. 1,200 crores in the first year, Rs. 1,500 crores in the second year and the balance in the third year. The loan is repayable over seven years. Nearly half of the loan amount will come from the Fund's ordinary resources (the amounts put in by the members) and the rest from out of the Saudi Arabian loan secured by IMF recently. It goes without saying that the amount drawn from the Saudi facility attracts a higher rate of interest (about 10 per cent) than the amount drawn from IMF's own resources (6.5 per cent). It is presumed that, after availing of the $ 5.7 billion loan, India will not be in a position to add to its liability by going in for other big loans, either in Eurodollar market or from the Asian Development Bank.

To be sure, IMF has at no stage insisted on the devaluation of the Rupee. Predictably, the staff's "assessment" point to a Reaganesque slant—an assault on inflation through supply side policies, free rein to the private sector for boosting investment, liberalisation of procedures regarding foreign collaboration, more imports, evolving a realistic price structure by slashing subsidies and so on. To what extent this policy slant is anticipated and accommodated in the Government's 15-page note submitted to IMF one is not sure. But the performance clauses that are being insisted upon by IMF may prove too irksome even for a pliable Government. They impose ceilings on bank credit and on what the Government can borrow from the banking system. The monitoring procedure is so thorough that in the coming years, the Indian Government will have to work in tandem with IMF management while formulating policies for bringing about desirable structural changes. The use, in these documents, of the padding phrase, "consistent with national policies accepted by our Parliament" does not make IMF's terms any more liberal. Even so, the temptation to condemn the deal as a "sell out" needs to be resisted till such time that full facts are made available to the public.

No Accord Yet on Cauvery Waters

THE meeting of the Chief Ministers of Karnataka and Tamil Nadu on the sharing of the Cauvery waters has proved to be inconclusive. They will pick up the threads again, at their next meeting, to be held in the first week of November. This should not cause any surprise because although Tamil Nadu is reported to have given up its rigid stand on the 1924 agreement which lapsed in 1974, after the completion of 50 years, wide differences still persist on the interpretation of the data collected up to 1972. According to this data, based on the flows during the years, 1934 to 1972, the availability of water is 748 TMC feet of which Tamil Nadu gets 556 TMC, Karnataka gets 177 TMC and Kerala gets 5 TMC.

Under the 1976 understanding, based on these data, it was envisaged that Tamil Nadu can save 100 TMC and Karnataka 25 TMC and this surplus is to be shared as follows: Karnataka 87 TMC, Kerala 34 TMC and Tamil Nadu 4 TMC. Tamil Nadu later rejected this surplus-sharing formula, not on the plea that it will be losing some 96 TMC under it but on the ground that the state was under the President's rule in 1976. At the December 1980 meeting convened by the Centre, Karnataka too disowned the 1976 accord and put forward a 10-point formula which suggested, *inter alia*, that ground water too should be included in the assessment of the water available in the Cauvery basin and that no water should be diverted outside the basin.

Tamil Nadu however supported one point in the 1976 accord, namely, the setting up of a Cauvery Valley Authority which is to be empowered to apportion the water among the states in a fair manner. The total *ayacut*, based on the 1972 data, is 1.48 million hectares of which Tamil Nadu has 1.17 million hectares, Karnataka 2.9 lakh hectares and Kerala 22,000 hectares. Possibly, if later data can be collected, they may reveal higher figures concerning irrigated area in the Cauvery basin. Karnataka, which is contributing 52 per cent of the Cauvery waters, so the argument runs, is irrigating only 2.9 lakh hectares while Tamil Nadu which contributes about 30 per cent of the waters, is irrigating nearly four times this area. If Tamil Nadu accepts the position that it can tap underground water in the Cauvery basin, estimated at 130 TMC, it will also have to agree to a sharing of the "surplus". The snag is, underground water will not be available until it is tapped and any re-allocation based on a widened concept of water availability may diminish the supplies needed by the *ayacut* in Tamil Nadu.

But Karnataka is well within its right to point out that part of the development of the *ayacut* in Tamil Nadu is unauthorised and, as such, the unathorised portion should not be entitled to water. It places Tamil Nadu's "unauthorised" utilisation at 90 to 100 TMC. There is also the argument that if Kerala diverts a bit of the Cauvery waters for power generation, i. e., westward diversion, the state should, in fairness, allow the diversion of some water from the West-flowing rivers into the Cauvery basin. Kerala considers this as an extraneous issue. The Cauvery waters dispute is thus no nearer a solution than it was in 1976 or at any time since the expiry of the 1924 agreement.

There is no denying that, by virtue of it being a lower riparian state and as a major beneficiary of the pre-independence, 1924 accord, Tamil Nadu has pre-empted the use of the Cauvery waters, to some extent, but any new understanding that will be reached among the riparian states should not jeopardise the interests of the farmers in Tamil Nadu. An equitable sharing of the Cauvery waters is possible if the states concerned agree to a collective approach. When the Chief Ministers meet next month, they should again consider the proposal to set up the Cauvery Valley Authority which can ensure equitable utilisation of the Cauvery waters.

L. I. C.'s Creditable Record

THE Life Insurance Corporation, the public sector leviathan which remains the object of harsh criticism, completed 25 years in September 1981. Its record of a quarter century is not as poor as is made out by its critics. When it was nationalised, in 1956, the new business of the merged companies — some 245 in number — amounted to a bare Rs. 260 crores. LIC's new business in 1980-81 stood at Rs. 8,801 crores. Its "socially-oriented investment," which stood at Rs. 259 crores in the year after the nationalisation, has gone up to Rs. 5,433 crores as on March 31, 1981. Its record of claims settlement has also shown spectacular improvement. The ratio of claims outstanding to claims intimated has gone down from 57 per cent before nationalisation to 18.49 per cent in 1980-81. Complaints about poor service to policy holders also appears somewhat exaggerated when one considers that the ratio of complaints received to the number of policies works out to less than one in a thousand.

The general complaint that LIC's premium rates are on the high side does not appear wholly valid when one considers that the bonuses declared have gone up from Rs. 12.80 and Rs. 16 per Rs. 1,000 for endowment and whole life policies respectively in 1967 to Rs. 24.80 and Rs. 31 in 1979. The L. I. C. Chairman, Mr. J. R. Joshi, has recently indicated that the bonus for 1980 could be much higher. Figures for 1980 81 reveal that there has been a further improvement (that is, reduction) in the overall and renewal ratios and an increase in the gross and net yields on the life fund. The net lapse ratio remains pegged at 3.8 per cent. That there has been a modest decline in the number of new policies in 1980-81 may however be explained by the erosion of savings caused by the double digit inflation in 1980.

Has Indian Journalism Come of Age?

By **K. N. S.**

FROM the manner in which the country's daily newspapers and periodicals—barring a few exceptions—have dealt with the seamy side of public life in India, it looks as if Indian journalism has come of age. This, I know, is a sweeping generalisation. We still have our share of unenterprising newspapers which waste acres of precious newsprint on publishing the inane, repetitive utterances of politicians. But the fact that some of the widely circulated and influential newspapers and journals of opinion have shown exemplary courage in truthfully reporting the murkier side of the nation's political life gives cause for hope.

Muck-raking is not in the Indian journalistic tradition but there can be no mistaking the new trend that is in evidence. In addition to reporting routine happenings, the newspapers assign their reporters to do special stories—an activity which also goes by the name of investigative reporting. Thanks to the enterprise shown by a new breed of courageous young reporters, social, economic and political crimes which normally get brushed under the carpet, hit the newspaper headlines. They include the plight of bonded labour, the trading in human flesh, the ill-treatment of prisoners in jails, the dacoit menace, atrocities committed on Harijans, the state of some of our hospitals and educational institutions and corruption in high places.

As far as I see, three factors have helped to bring about this welcome change from routine reportage of day-to-day happenings to investigative reportage. Firstly, our editors and reporters who have access to newspapers published in the Western countries, do not remain uninfluenced by what their colleagues do there. Secondly, the newspaper industry in the country is getting more and more competitive. And, to stay in business, they have to give some thing special to the readers. Thirdly, the deterioration in the standards of public life, coupled with the rise in the number of social offences provides greater scope to the reporter for turning out stories of an investigative nature.

Scoops seem to be getting out of favour. There is growing realisation that it is easier to obtain a scoop, given the right contacts and a nose for the newsworthy development, than to put together a report based on facts unearthed from improbable sources. The newspapers are realising that it is not enough to be the first to print the news—be it the choice of a new minister, a budget leak or a new development in a political party. To make an impression on the minds of the readers, they have to work on stories with social content even if in the process, they come into conflict with powerful vested interests. It would be a mistake to think, however, that we are going back to the crusading type of journalism which was very much in evidence in the thirties and early forties. While the spirit behind the two types of journalism—crusading journalism and investigative journalism—is the same, the latter is more difficult to practice and is qualitatively superior.

The new trend also represents the growing affluence of the newspaper industry. Quite often, the reporters assigned to investigate and report have to work in tandem. They have to travel long distances and, as in the case of the report on flesh trade which appeared in *Indian Express*, the reporter concerned should have enough money to "buy" a sample product to prove his point. And to report the goings on in a prison, one has to commit a petty crime oneself to gain admission into the jail. Since much of investigative reporting involves hurting powerful interests, the newspapers concerned have to be prepared to face costly legal battles. Indeed, they are.

So far, good. But I sometimes wonder if our newspapers can continue along this path without undergoing a structural change. My fear is that, sooner or later, they will find themselves working at cross purposes with the interests whose wrong doings they seek to expose. Investigative reporting hurts, not the thousand-legged creature called government which is incapable of striking back quickly but the men who are entrenched in positions of power. Somewhere along the line, one has to make one's choice. If one pursues with investigative reportage and candid comments, one may win more readers but lose official patronage—release of advertisements, uninterrupted supply of newsprint, foreign jaunts to the senior staff and what have you.

The pattern of newspaper ownership too militates against upholding highest journalistic standards. Newspaper owners who have a stake in industry — manufacturing activity, to be precise — often try to influence the editorial policies of their newspapers in a manner that pleases the men in power. This explains why our metropolitan newspapers, barring a few significant exceptions, lack a pronounced anti-establishment tradition. If a Watergate-like exposure results in a confrontation between the Government and the Press, the first to surrender will be the industrialist-owners of our metropolitan dailies. I draw this conclusion not out of any anti-business bias but from what I have seen of the behaviour of the press during the emergency.

Glass House Gossip

THE capers of the Khalistan militants are too serious to be taken for harmless Sardarji jokes. The other day — on September 29, to be precise — a bunch of Sikh hotheads, claiming to be members of Dal Khalsa, the youth wing of the Khalistan movement launched by Sant Jarnail Singh Bhindranwale, hijacked an Indian Airlines Boeing 737 with 117 persons on board. The passengers of the hijacked plane were lucky in that a good number of them were released after the aircraft landed at Lahore and the rest could return to India after the Pakistani commandos overpowered the *kirpan*-wielding hijackers. If the passengers had only known that the Dal Khalsa youth had no lethal weapons with them other than those glorified knives, they would have probably overpowered the hijackers and proceeded on their journey to Srinagar.

The hijacking episode *almost* turned out to be a Sardarji joke, with just a touch of incipient violence. But it would be naive to treat the other violent happenings associated with Sant Bhindranwale lightly as pranks of misguided religious zealots. The Sant is implicated in two murders—the murder of the Chief of the Nirankari sect some time ago and the assassination of Lala Jagat Narain, a well known journalist and public figure in Punjab, very recently. The fact that Bhindranwale has a sizable following among the Sikhs rendered his arrest, as one of the murder suspects, difficult. To be sure, it was not like nabbing one more murder suspect. The arrest of Sant Bhindranwale had a touch of drama—the advance information about his desire to surrender, the massive crowd which gathered at Mehta Chowk, the attack on the police and subsequent police firing in which more than ten persons died and the Sant's arrest on September 20.

Are the Sikhs really serious about their Khalistan demand? Do they really want to break away from the rest of India? While I cannot persuade myself into believing that the Khalistan movement has the support of the majority of Sikhs, the dastardly murder of Lala Jagat Narain makes me feel that it does have a sizable following. The evidence implicating Sant Bhindranwale in the murder is circumstantial, but I cannot help feeling that it was Lala Jagat Narain's opposition — aired through the columns of his mass circulated papers — that incurred the wrath of the Sikh hotheads. One does not have to be an enemy of the Sikhs to condemn a secessionist movement. And Lala Jagat Narayan, a veteran of the freedom struggle and respected journalist, was no less a friend of the Sikhs than any other distinguished Indian, including Mrs. Indira Gandhi.

India is a vast country, geographically and in terms of population, and each state in India is roughly of the size of a European nation. Theoretically, therefore, it can be argued that each state can have an independent existence but what will the states achieve by declaring independence? At one time, when the anti-Hindi sentiments were at their peak, the D. M. K. leaders were talking of secession in muted tones. We now do not hear such separatist cries in this part of the country. Even Assam, which has been on war path, on the issue of "foreigners", has never raised the demand for getting out of the Indian Union. The only people who are adamant about seceding from the country are the hill people who comprise some of the North-Eastern states — the Nagas, the Mizos and so on. It is their sense of neglect, coupled with the insiduous propaganda of the Christian missionaries, not to speak of the covert support they receive from unfriendly nations across the border that has kept the cauldron boiling. While I hold New Delhi to be guilty of neglect, in regard to the North-Eastern states, I cannot say the same thing of Punjab, which remains very much in the mainstream of national life.

By a poor country's standards, Punjab does not have much to complain about. It has the highest *per capita* income in the country and has a *per capita* electricity consumption which is more than twice the national average. Again, it remains the largest beneficiary of irrigation facilities — against 25 per cent for the whole country, the irrigated area in Punjab forms nearly 74 per cent—and the State's *per capita* consumption of fertilizers is the highest among all the states. Punjab has more motor vehicles per 10,000 population (129) than for the entire country (48). The state has the highest *per capita* bank deposits next only to Maharashtra. With Bombay excluded, Punjab remains at the top, even on this count. In terms of primary education, it has stolen a march over Kerala, which is saying something.

I do not have all the statistics with me but I am sure the state maintain its top rank in *per capita* annual consumption of beer and in the ownership of television sets and refrigerators. Punjab produces more foodgrains (8 per cent of the country's production) than any other state with the exception of Uttar Pradesh (16.8 per cent) and Madhya Pradesh (9.4 per cent) but, probably, it has a larger surplus to spare than any other food producing state. The public sector investment in Punjab, I know, is quite meagre (Rs. 344 crores) compared to the Centre's investment in practically all the other larger states — even Tamil Nadu and Karnataka have attracted a larger volume of the Centre's investment — but that, I am sure, is not one of Sant Bhindranwale's major complaints. Even without the Centre's massive investment, Punjab remains a beehive of industrial activity, particularly in the small scale sector. The Punjabis are a self reliant, industrious people. It is not in their nature to look for largesses from New Delhi.

Be that as it may, I am surprised at the manner in which the extremists among the Sikhs are carrying on an anti-national movement whose unintended effect will be to weaken the country. The Sikhs, who have borne the brunt of partition and every war since independence, should know what it means to secede from India. Evidently, Sant Bhandranwale has a primitive, one-track mind. Some one should ask him as to what he will do with the Hindus who form 47 per cent of the state's population. Some one should also ask him as to what the fate of the prosperous Sikhs who have settled in practically all the states of the country will be in the event of secession. The hotheads among the Akalis should take time off for carrying out a quick, hypothetical study of what will be the plus and minus points of secession. Such a study, I am sure, will awaken Sant Bhindranwale and his followers into an awareness of the facts of life which seem to have eluded them so far.

□ □ □

AS early as September 12, *The Economist* saw it coming. It wondered: "Is Egypt's Anwar Sadat heading the way of the late Shah of Iran?" In the very next sentence, in its editorial captioned "Cairo's Potentate", the prestigious, right-leaning weekly provided the answer: "The king-sized folly of sweeping 1,500 of his critics away into prison gives substance to many Egyptians' own contention that Mr. Sadat, in his sentitivity to an unkind word, is catching the paranoia about criticism which in the end proved fatal for the Shah". Fatal it did prove to Sadat too. On October 6, as an unsuspecting President was watching a military parade held to mark the eighth anniversary of the 1973 war against Israel, one of his own soldiers gunned him down. Before these lines are seen in print, a lot will be written on who planned the assassination, how it was planned and so on but to the average Egyptian, it marked the end of an era.

I do not think there was any need for President Sadat to pounce on the opposition in the manner he did on September 5. For an authoritarian who had such a tight grip on the state machine, the arrests were probably uncalled for. He could have dealt with the opposition in a less drastic manner. Things were simmering since the Moslem-Christian riots in Cairo in June which took a toll of 17 persons. But President Sadat was less concerned over what was happening to the Coptic Christian minority (they form about a tenth of Egypt's population) than about the coming tidal wave of Islamic fundamentalism. Upholding the principle, "no religion in politics: no politics in religion", he not only stripped the Coptic Pope of temporal power but also came down heavily on Islamic fundamentalists by dissolving ten Islamic societies which were preaching revolutionary changes in the Egyptian society. President Sadat's clamp-down also included the closure of several religious and leftist publications and the take-over of 40,000 mosques. Those arrested included the well-known journalist, Mohammed Heikal, former Editor of *al-Ahram.*

Evidently, the purge of September 5 did not work the way it was intended. It caused resentment among a wide cross-section of the Egyptian public who did not remain uninfluenced by what was happening in the Arab world. The students were restive; so were other sections. While I am second to none in condemning Sadat's high-handed action, I am not quite certain that by eliminating him from the political scene, the extremists (whoever they are) are well on the way to bringing peace and stability to that country. Only history will judge whether the Camp David accord, under which Sadat was able to get back more than half of the Sinai Peninsula over-run by Israel in the last Arab-Israel war, was in the best interests of the Egyptians. But the fact remains that Sadat was able to get back part of the territory that the country had lost to Israel and was well on the way to getting back the remaining territory under a time-table worked out at Camp David. The assassination of Sadat is likely to cause a serious setback to this process.

The chances are that both Egypt and Israel will abrogate the agreement. In all probability, Sadat's successor will make earnest efforts to get back into the Arab fold, by making suitable conciliatory gestures to the militant Arab nations like Libya, Iraq and Syria. Understandably, Sadat's death has caused rejoicings among the terrorists belonging to the Palestinian Liberation Organisation. The happiest person today is Col. Kaddafi, the President of Libya, who did everything in his power to denigrate Anwar Sadat. The saddest person is President Reagan who considered Sadat as the only trustworthy ally of the Americans in Middle East. Now that Sadat is no more, American policy in this region is thrown into the melting pot. The new President of Egypt is unlikely to do anything which would anger the Arab world to which Egypt belongs.

—Plebeian

Rural Poverty in India — An Analysis

By **G. Dharma Rao** *

Estimates of rural poverty vary but it can be safely assumed that nearly half the rural population lives below the poverty line. That planning has not made any dent in this problem constitutes a sad commentary on the policies of the Government. In this article, the author analyses the problem in the light of the poverty studies made by economists and suggests how this problems can be tackled in our future plans.

INDIAN economy is basically rural in character with land and labour as the main productive resources. Poverty in India too is essentially rural. Urban poverty is only an overflow of rural poverty. Our poverty is both relative and absolute. Relative poverty is often measured in terms of inequality in income distribrtion. Absolute poverty is measured in terms of some kind of notion of 'subsistence', considered appropriate to the circumstances of the particular society concerned. In developing countries where incomes are generally low, absolute poverty is reflected mainly in the inadequacy of food intake and the consequent malnourishment and undernourishment on a mass scale. The rural poor can fairly be identified as being composed of small and marginal farmers, landless agricultural labourers, rural artisans, and persons engaged in traditional occupations, scheduled tribes, scheduled castes, and socially and economically backward classes. Actually all the unemployed, undremployed and even some employed persons are poor because of their low productivity and low wages.

Poverty in India is a great social and challenging problem. The process of economic development has made the rich richer while the poor have become poorer. Today, the extent and intensity of poverty is wider and more acute in comparison to that in the beginning of the plans. Today, the majority of the Indian population lives below the poverty line and are unable to fulfil their basic needs of food, clothes, and shelter. But this problem is more acute in the rural areas.

Removal of poverty would mean that every person living bellow the minimum acceptable standard and having megre means of livlihood should have enough income to maintain and equal, acceptable living standard in the society. It is very difficult to define a poverty line or a minimum acceptable standard of living so as to distinguish persons as poor and below such poverty line and not poor and above the line. There can be no standard measure of poverty as it is a comparative state of living standard differing from people to people, society to society and nation to nation. An American social scientist, Stanley Lebergott[1], in his book, *Wealth and Wants* has rightly remarked that 'poverty increases with every dose of increase in wage of the workers', as those who do not get any benefit of wage increase will be hit hard. Similarly, 'every innovation in standard of living enhances poverty'. Further, 'every rise in a family by a new born baby without increase in source of income renders a family into poverty proportionately to the amount to be spent on the children'. In the same way, 'preventing children from work is to prevent them from earning money to add to family income which increases poverty'.

Evidence in India

In 1962, a study group[2] set up by the Planning Commission, estimated that 40 per cent of Indian population lived below the poverty line. According to the group, those who spent Rs. 240 or less per year were considered below poverty line. The National Sample Survey (NSS) distinguishes between the 'less poor' and 'more poor'. It has been working on the basis of different *per capita* consumption expenditure figured to indicate the different kinds of poor. They worked out the number of severe destitutes, destitutes, and poor in different rounds of their surveys. They define each of these categories on the basis of monthly *per capita* expenditure as indicated in Table 1.

TABLE-1

DEFINITION — SEVERE DESTITUTES, DESTITUTES AND POOR-THOSE WITH MONTHLY PER CAPITA CONSUMER EXPNDITURE LESS THAN RUPEES

	Severe Destitutes		Destitutes		Poor	
Years	Rural	Urban	Rural	Urban	Rural	Urban
1960-61	11	15	13	18	15	21
1964-65	15	21	18	24	21	28
1970-71	21	28	24	34	28	43
1973-74	28	34	34	43	43	55

Source: NSS Rounds 16th (July 1960-August 1961), 19th (July 1964-June 1965), 25th (July 1970-June 1971) and 28th (October 1973-June 1974).

---

* Mr. Dharma Rao is Research Scholar, Department of Economics, Andhra University, Waltair-530 003.

The number of people below the poverty line, both rural and urban, vary very much according to different estimates. For 1960-61, the number of people below the poverty line was estimated at 131.0 million by P. K. Bardhan,[3] 136.0 million by V. M. Dandekar and Nilakanta Rath,[4] 164.0 million by B S, Minhas[5] and 184.2 million by P. D. Ojha[6]. For 1967-68, Dandekar and Rath came to a figure of 215.5 million, while Minhas arrived at a figure of 247 million. In these two estimates, the rural poor constituted 77 per cent (166.4 million) and 85 per cent (210.0 million) respectively. The percentage of people below the poverty line in the rural areas in these estimates were also different; they were 40 and 50 6 respectively. The estimates of Ojha, however, indicated that the percentage of rural poor was about 70. I. Z. Bhatty[7] also came to the same figure based on his study of the income distribution data. An interesting sidelight is that Bardhan arrives at a rural/urban proportion which is the reverse of what Dandekar and Rath have arrived at. While Bardhan sugested that there is a greater incidence of poverty in the rural areas (in 1968-69); Dandekar and Rath noticed greater incidence of poverty in the urban areas. The estimates of rural poor in 1967-68 range from 166.4 million (Dandekar and Rath) to 268 million (Ojha). The National Council of Applied Economic Research (NCEAR) estimates placed the rural poor at about 250 million in 1970-'71.

The Sixth Plan places a very high priority on the alleviation of poverty. For an assessment of the problem and for setting targets a quantitative index for poverty was formulated in the report of the "Task Force on Projections of Minimum Needs and Effective Consumption Demand" set up by the Planning Commission in 1977, where poverty line is defined as the mid-point of the monthly *per capita* expenditure class having a daily calorie intake of 2,400 per person in rural areas and 2,100 in urban areas. At 1979-80 prices, the mid-points are Rs. 76 in rural areas and Rs. 88 in urban areas. Subsequenty, on the basis of an assessment of several rounds of NSS of household consumer expenditure it has been observed that nearly 50 per cent of our population has been living below the poverty line continuously over a long period.

TABLE-2

PERCENTAGE OF PEOPLE BELOW POVERTY-LINE

Sl. No.	Area	1972-73	1977-78
1.	Rural	54.09	50.82
2.	Urban	41.22	38.19
3.	All India	51.49	48.13

The number of poor people as defined above and the distribution of the consumption expenditure as estimated from 32nd round of NSS are indicated in Table-3.

TABLE-3

DISTRIBUTION OF TOTAL PRIVATE CONSUMPTION EXPENDITURE BY DECILES: 1977-78

(per cent)

Deciles	Rural	Urban
0-10	3.65	3.36
10-20	5.12	4.67
20-30	6.24	5.59
30-40	6.56	6.50
40-50	8.03	7.39
50-60	8.66	8.69
60-70	9.84	9.77
70-80	11.77	12.31
80-90	14.55	14.24
90-100	25.58	27.48
0-100	100.00	100.00
Average monthly *per capita* consumption for people below poverty line *	44.96	53.87
Average aggregate monthly *per capita* consumption *	75.61	108.73
People below poverty line (million)	251.66	51.10
Total population (million)	495.2	133.8

* Rupees at 1977-78 prices as per total private consumption given in the National Accounts Statistics, Central Statistical Organisation, Feb., 1980.

Source : Sixth Five Year Plan (1980-85) Report.

Though the estimates are debatable, it may be said without an iota of doubt that the total number and percentage of the people living below poverty line has increased over the years and we have a long way to go to ensure a tolerable standard of living for a large number of poor and destitute.

Causes of Poverty

Following are the causes that have attributed to the increasing trend in rural poverty:

1. Rural poverty has been a regular feature of the Indian economy since the beginning of the twentieth century. Before the advent of the British Raj, India was a prosperous country with balanced economic growth in both the sectors — agriculture and industry — and in both areas, rural and urban. The exploitative economic policy of the colonial rulers destroyed the industrial base and destorted the economy of the country that resulted in its becoming one of the poorest in the world. Marx was not wrong when he said "England has broken down the whole framework of Indian society, without any symptoms of reconstruction yet reappearing".

2. The growth rate of Indian economy was never impressive. In each five year plan, the postulated growth rate was between 4.5 per cent to 5 per cent per annum. But in practice, the postulated growth rate was never changed. During the planning period, the national income of India increased at the rate of 3.7 per cent per annum in fifties, 3.2 per cent per annum in sixties and only 2.8 per cent per annum in the seventies. Inspite of the technological change and highly popularised green revolution, growth rate of agricultural output decreased from 3.2 per cent per annum in 1950-51 and 1964-65 to 2.2 per cent per annum in 1965-66 and 1979-80. This below target performance of agricultural economy is the main causeof our rural poverty.

3. Post-independence India attempted to introduce some institutional changes by implementing land reform legislation. Due to political expediency, land reforms could not be implemented effectively. According to official figures, as on July 1976, about 44 lakh acres of land was estimated to be surplus, 21 lakh acres was declared actually surplus, and only 12 lakh acres of land was possessed by Government; of this area only 7

lakh acres has been distributed. This indicates the poor results of the land reform legislation.

4. The inequality in land ownership is a major contributory factor to the incidence of rural poverty in the country. The marginal farmers accounting for 55 per cent of the households own hardly 8 per cent of the land. The small farmers are only slightly better off than them as they constitute 17 per cent and 12 per cent of the agricultural land. As much as 80 per cent of the agricultural land is owned by 28 per cent of the rural rich elite.

5. Out of 162 million hectares of agricultural holdings, only 145 million hectares of land are actually under cultivated. So, the total of 17 million hectares of land are still lying idle. A country like India cannot afford such a wastage.

6. Todaro Strategy.[8] According to Todaro, highly unequal distribution of income and wealth is unfavourable for rapid growth in developing economies because landlords, businessmen, politicians and other rich elite are known to squander much of their incomes on imported luxury goods, expensive houses, foreign travel and foreign bank accounts. Such savings and investments do not add to the nation's productive resources. If the income is distributed properly, the production of the bottom class is improved. Along with their income improvement, it leads to demand for food and domestic goods and thereby creates more employment opportunities. This (proper distribution) creates psychological incentives to widespread participation in development process.

7. The poverty of our people is further worsened by continuously rising prices of commodities and inadequate employment opportunities.

8. Various other reasons have been put forward to explain this dilemma, e.g., unemployment and underemployment, high incidence of illeteracy, very low capacity of rural poor to take advantage of new technology; lack of resources and appropriate skills, inequality and social injustice, inadequacy in implementation of Government programmes etc. The root-cause of poverty lies in the lack of organisational capacity of the rural poor to fight against injustice.

Poverty has been increasing in India in the era of planning because the benefits of planned development have been accruing to the richer strata of our society. This is due to an inappropriate strategy of planning adopted in India. To tackle the problem of poverty, says the sixth Plan (1980-85) Framework, an increase in the productive potential of the economy is essential. The plan document further says that planning for rapid economic and social development in a democratic society can succeed only if there is conscious and willing acceptance on the part of the common people of the structural changes associated with a fast-changing economy. The framework stressed the need for strengthening arrangements for people's involvement in the planning process.

Remedial Measures

The following measures can help to enlarge employment and in the process lead to removal of rural poverty:

1. In providing meaningful employment opportunities to the people, agriculture should be assigned its rightful place in the strategy of development.

(i) Effective implementation of land reforms programme;

(ii) Provision of security of tenure to share-croppers and temporary tenents;

(iii) to workout a programme of providing employment to people on uncultivable and barren lands, current fallows and cultivable wastes.

2. Efforts are needed to help the small and marginal farmers to increase their production. For this, they should be provided with interest free loans with easy terms and conditions. Tractors, pumpsets, harvestors and other similar equipment should be provided on hire. Loans should be given in kinds, i. e., in the form of high yielding varieties of seeds, fertilisers, pesticides etc. This can be done with the help of co-operative societies, Commercial Banks (including Regional Rural Banks), formed for the purpose of helping only the small and marginal farmers.

3. Farmer production groups should be formed in every village. One such group should not comprise more than 10 farmers of contiguous areas. So that the group should be in a position to make full utilisation of one unit of the indivisible types of inputs such as an irrigation pump or a small tractor or a similar machinery. This group will be accountable to farmers organisation or a farmers co-operative society, which will have the overall supervision.

4. Water should be provided to dry lands by extending minor irrigation.

5. Efforts are needed to help the small and marginal farmers to augment their income by some secondary occupations, like dairying and animal husbandary, horticulture, piggery, sheep-breeding, poultry farming, fishing, forestry, etc. These programmes should be taken up on the priority basis.

6. Special efforts are needed to improve the lot of landless labourers and rural artisans like, carpenters. blacksmith, shoe-makers, potters, etc. They should provide credit at low cost and easy terms to establish their small workshops. They should be given a short training in their respective professions to enable them to acquaint themselves with modern changes in their fields. This work of training should be entrusted to some governmental agency consisting of devoted workers of high skill. In addition to this, small and cottage industries are needed in rural India to provide better employment opportunities to landless labourers. These industries should be selected carefully, so that they may utilize the locally available raw material. These industries should suit the local requirements also. Otherwise, they will not be able to generate favourable responses from the rural folk.

7. We should incorporate special programmes/schemes, like rural manpower programme; crash scheme for rural employment; pilot intensive rural employment project; drought prone area programme; small and marginal farmers and agricultural labourers development programmes; food for work programme; special livestock production programme; rural godown schemes, Antyodaya,

Minimum Needs Programme; etc. as permanent programmes of development. Some of the programmes have been revampted, restructured and intensified, such as, National Rural Employment Programme. An Integrated Rural Development Programme has been initiated and extended to all the blocks in the country with a view to lifting the poor families above the poverty line.

8. Since poverty is the direct consequence of rural underdevelopment, the author proposes to emphasise rural development. For this purpose, he accepts the Gandhian[9] path of rural development with greather emphasis on small sector as the means for providing full employment. To achieve this, resource allocation will have to be tilted in favour of rural-based and employment oriented path of growth.

9. To provide much greater quantum of grant for schools in the backward areas and for backward classes so that inequality of opportunity can be reduced.

10. Instead of following the capital-intensive urban-oriented and centralized path of development, the author proposes to reorient planning goals and priorities to adopt a pattern of development based on an appropriate technology that answers our need to find full employment and a better life for our people and to steer clear of the evils of capitalist or totalitarian industrialisation.

11. In the industrial field, attempts should be made to design and apply new and more labour intensive technologies. The technology that we use whether in agriculture or in industry should be related to our factor endowments. that is to say, it should facilitate intensive use of labour which is abundant in India, and economize capital which is scarce. The sophisticated capital-intensive technology imported from abroad cannot serve our purpose. This is evident from the fact that during the last 30 years of planning, employment has always lagged behind the growth of capital investment. A major contribution to the elimination of poverty can, therefore, be made by designing and implementing what is called the "intermediate technology."

12. The country should achieve a break-through in population control, particularly among the poor. If we fail in this, the Malthusian spectre of famine, hunger and pestilence will continue to haunt us.

It is extremely essential to chalk out an integrated approach for rural development for ameliorating poverty and reducing inequality. The implementation of these programmes should be done in all seriousness. A satisfactory solution of the problem of rural unemployment and poverty can be found only when planning is attuned to the aim of "utilising to the fullest extent the manpower resources of the community".

REFERENCES

1. Stanley Lebergott: *"Wealth and Wants"* Binceton University Press, p. 56-57.

2. A Study group: Prof. D. R. Gadgil; B. N. Ganguli; P. S. Lokanathan; M. R. Masani; Ashok Mehta; Sriman Narayan pitambar pant; V. K. R. V. Rao and Anna Saheb Sahasrabudhe.

3. P. K. Bardhan: *"On the minimum level of living and the rural poor"* Indian Economic Review, 1970.

4. V. M. Dandekar and Rath: *"poverty in India"*, Indian School of Political Economy, 1971.

5. B. S. Minhas: *"Rural poverty, Land Redistribution and Development"*, Indian Economic Review, 5, 1970.

6. P. D. Ojha: *"A configuration of Indian Poverty"*, RBI Bulletin, January 1970.

7. I. Z. Bhatty: *"Inequality and Poverty in Rural India"*, Economic and Political Weekly, 1974.

8. Michael P. Todaro: *"Economics for Developing World"*, Longman group Ltd., London. pp. 135-166,

9. M. K. Gandhi: *"Economic and Industrial life"*, Harijan, Vil. 1. December, 19 1936, pp. 133-135.

INDIA—THE TURBULENT HALF-DECADE

BY K. N. SUBRAHMANYA

(200 pages : Price Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first year's record.

SELECT OPINIONS

Subrahmanya's strong point is that he writes as an observer and not as a protagonist of this or that party or group. —*Commerce*

His style is unostentatious, his approach dispassionate and his logic forcible. —*Capital*

He has stated certain unpalatable facts. —*Patriot*

There is much to ponder in this little book. —*The Mail*

The book gives an in-depth and impartial analysis of recent political events. —*P. I. B. Nayar, Journalist, London*

You have made many thought-provoking points.—*N. A. Palkhivala*

Since long, we have not come across such an objective review of the Indian political scene.

—*Dr. Susheela Gosalia, Author, Mannheim, West Germany.*

Copies can be had from: **Southern Economist,**
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

Unemployment through Five Year Plans: Can the Trend be Reversed in 80s?

By **Ram Vichar Sinha** *

The problem of unemployment is becoming more acute despite the emphasis laid in our five year plans on programmes to create more jobs. At the end of the sixth plan, the number of the unemployed will have exceeded six crores — a mind-boggling figure. Although the plan projections reveal that there will be sixable job creation during the Sixth Plan, there are doubts if the planners will succeed in clearing the unemployment backlog. In this paper, the author sizes up the dimensions of the problem and says that with a suitable shift in the plan priorities in favour of small scale units, it will be possible to make a dent in the problem.

THE Russian communists were the first to adopt planning. Their planning evolved through emperical ways to tackle economic difficulties. In Italian planning, there was divergence of theory and practice. The objectives of theoretical and practical aspects of planning, were, however, met in the policy of full employment as adopted by the advanced nations of the West, Lord Keynes gave the theory of planning for full employment whereas Beveridge suggested various measures for full employment policy. It is said to be a harmonious compromise between theory and practice. In our country, the idea of planning emerged from the thinking of Visvesvaraya, K. T. Shah, Gandhi, Subhas Chandra Bose and Jawaharlal Nehru. At the National Development Council meeting on September 24, 1976, planning was stated to be an inseparable part of our national life. Economic planning is a way to provide solution to economic problems by controlling economic forces consciously and deliberately to certain social ends, including full employment.

Man Power Resources

Industrialisation involves special techniques and the growing needs for a varied and comfortably civilised living require more sophisticated techniques, for which mere raw materials and power resources are not enough. Something more is needed, which, in modern economic science, is characterised as man-power. The man-power resources are superior to the other resources on many considerations.

The experience of some advanced countries like Japan and Switzerland has shown that highly skilled man-power can make up for the relative scarcity of some natural resources. Shortage of coal can be over-come by generating hydel or atomic power. We know that with the emergence of every new invention or innovation, old techniques get outmoded and outdated.

Consequently, man-power skills are also in process of continuous change. The relative surplus of labour force or man-power poses a problem in the shape of unemployment. So, the need is greatly felt in planning in any country to utilise the entire man-power resources in particular to their optimum use in combination with capital. The recent controversy about labour-intensive techniques in developing economies is the outcome of a disequilibrium in the supply of and demand for labour and capital.[1] The state may regulate the adoption of either technique but at the same time it cannot ignore the basic economic cost-benefit principle. In several industries automation is being introduced in operation at the cost of the manual labour causing unemployment. Thus any economic planning cannot divorce the total employment potentiality. In the true sense, these two are inseparably compatible taking into view a country's productivity, rate of growth and capital formation for the sake of tackling various economic problems.

Job Creation

One of the basic objectives of economic planning is to create more and better employment opportunities. In an economy like that of India with preponderance of agriculture, under-employment is a secular trend which must be taken into planning process for tackling the problem of the chronic gap of unemployment. India's Five Year Plans have made disclosure that employment has been a weak link in the chain of developmental efforts. This fact is borne out by the fact that at the beginning of the Second Plan, the backlog of unemployment was of the order of 5.8 million. But at the end of the Second Plan the backlog of unemployment went upto 9 million as against 5.8 million at its beginning. The target, which was set for employment in the Third Plan was 10.5 million in the non-agricultural sector and 3.5 million in the agricultural sector, making a total of 14 million. Taking the backlog of 9 million persons unemployed at the beginning of Third Plan and the addition of 17 million due to population growth in the employable age bracket, the total number of the unemployed went upto 26 million.

One of the distressing elements in the unemployment situation is the increasing volume of educated unemployment. During the Second Plan period, the total number of the educated unemployed increased by 108 per cent. During this period, the unemployed graduates increased by 77 per cent, the intermediates by 100 per cent and the matriculates by 118 per cent leading to great frustration affecting ideologies and political stability. Thus, it can be concluded that if the test of employment is applied as a criterion of the success of the Five Year Plans, the Second and the Third Plans may be considered as a great failure[2].

It is a sorry state of affairs that we do not have reliable data of the

---

* Dr. Ram Vichar Sinha is Head of the Department of Economics, Gopeshwar College, Hathwa, (Bihar University).

unemployment situation in the country. Unemployment has become commonplace in the different regions of India. In 1972-73, the unemployed as a percentage of the labour force in rurul area in Kerala was 11.9 per cent, 3.1 per cent in Tamil Nadu, 2.8 per cent in West Bengal, 2.4 per cent in Maharashtra, 1.9 per cent in Gujarat and 1.1 per cent in Punjab. In urban areas, the difference is even higher. The Fourth Plan started with a backlog of 16 million unemployed. New entrants to the labour force during 1969-74 were estimated to be another 23 million. This means that a total of 39 million job seekers were in the employment market during the period. It is estimated that nearly 6 million additional job seekers are added every year.[3]

Waste of Talent

On a rough estimate, the country will have 64 million unemployed by the end of 6th Plan. "According to the 1971 Special Census, more than 20 per cent of the science graduates and 14 per cent of engineering graduates in India are unemployed while a large majority of the employed are either underemployed or under utilised". The problem of gross under-utilisation assumes a special significance in view of social cost incurred in developing the scientific and technological man-power. For example, in addition to the personal cost, the society spends approximately Rs. Twenty thousand in turning out an engineering graduate after higher secondary education.[4] The number of job-seekers on the live registers of employment exchange in the country increased by 9.77 million at the end of December 1975. The total number of educated unemployed also rose from 48 lakhs in 1975 to 51 lakhs in 1976. Thus the unemployment position continues to be grave and as such the provision of employment should be a major objective of planning in our country[5].

Employment in the organised sector increased by 5 20 lakhs or 2.6 per cent in 1975-76 due mainly to an increase of 4.7 lakhs jobs in the public sector. Employment during 1961-1971 was increasing at a compound growth rate of 2.54 per cent per annum upto 1967 and less than 3 per cent later on. At this rate of 3.54 per cent per annum only 4 million persons are to get jobs. To absorb the increase nearly by 2.19 per cent per year in population, the employment must be increased by 8 per cent a year[6]. Successive Five Year Plans have stressed the need for reducing regional imbalances to achieve the long term objective of balanced development and greater opportunities of employment. In pursuance of the acceptance of the recommendations of the working group appointed by the Government of India in 1969, various incentives have been offered for setting up industries in notified backward district areas. The number of districts eligible for central investment subsidy rose from 44 to 101 in 1979.

Minimum Needs

The Planning Commission had prepared the old Five Year Plan (1978–1983) with greater emphasis on rural development and increased employment basis. Four major areas of activity have been taken into consideration for implementation. They are as follows: Massive Irrigation programme, Block Area planning, Programme for fulfilling minimum needs and public distribution system. Such labour-intensive techniques in production of mass consumption (consumer's goods) which will create large employment potential have been stressed. The Sixth Plan redefines the norms of nine items of minimum needs, which were determined for the Fifth Plan. The programme based on upgraded norms is called the "Revised Minimum needs programme". Because of its high construction components, the revised programme will also create substantial additional employment opportunities for unskilled labour besides various infrastructural facilities[7]. The massive rural works programmes, if undertaken methodically, can certainly absorb 15 to 20 million unemployed on a regular basis according to an estimate. If industrial growth is accelerated at the rate of 15 per cent a year, it will create large number of jobs in the organised sector. Public Sector banks have already sanctioned Rs. 80.5 crores as credit assistance on 68,989 applications under the half a million job employment promotion programme though this is said to be a drop in the ocean.

Still Inadequate

The latest estimates show that the rate of growth of employment in 1978-79 was substantially high at 3.4 per cent in the organised sector and 3.15 per cent in the economy as a whole against the growth of labour force at two per cent. Thus this rate of increase in the employment generation is still slower than what has been targetted at 4.7 per cent in the Five Year Plan document meant for the period 1978-1983.

Now, an appraisal of the measures of employment generation may be in order:

1. Since the inception of the Central Investment subsidy in 1970, Rs. 10.71 crores had been disbursed till March 30, 1976. Of this, the share of developed states was as much as 59 per cent. Of the developed states more than one-fifth of the amount has gone to Maharashtra alone. The developed states accounted for about 63 per cent of the total financial assistance sanctioned by IFCI as on 30th June 1977. Two developed states, Maharashtra and Tamil Nadu obtained 32 per cent of the total sanctions and about half of the financial assistance sanctioned to all developed states. These statistics shows the lop-sided development of various regions with increasing regional unbalanced growth. Imbalance in resources distribution has posed a great challenge which has to be met adequately if the horizon of employment has got to be widened and expansive quite in tune with the spirit of the 6th Plan. In the worlds of Gunner Myrdal, "Inequality and the trend towards rising inequality stand as a complex of inhibitions and obstacles to development and consequently there is urgent need for reversing the trend and creating greater equality as a condition for speeding up development"[8].

2. The growth of small scale industries has not achieved marked employment generation to an appreciable extent in spite of great stress by the Government. Besides, not much evidence is available of development of indigenous technology.

3. The new industrial policy announced on December 23, 1977, envisages the setting up of District Industries Centres in a phased manner to promote development of cottage and small scale industries in rural areas and small towns for creating more jobs.

4. The Fifth Five Year Plan 1974-79 was terminated a year ahead of schedule and the Draft of its Five Year Plan (1978-83) was presented to the nation in April 1978. The main objectives of the Plan are as follows: Within a time span of ten years unemployment and chronic unemployment should be removed and the state should provide basic needs to the poor sections of population such as clean drinking water, adult literacy etc. Although the overall performance of the economy can be regarded as satisfactory, its impact on the basic problem of unemployment specially the disguised unemployment or under employment is not perceptible in the country. As has been analysed earlier, employment in the organised sector did not show much improvement.

Some Suggestions

1. The view put forward by the noted economist, Dr. Malcolm S. Adiseshiah, in a key note paper prepared for discussion at a Workshop on "Mid-year review of the economy-1977" which was inaugurated by Raj Krishna, planning Commission Member, emphasised extension of the "Employment Guarantee Scheme of Maharashtra" to the whole country as part of the shift in planning priorities to agriculture, irrigation and rural small and cottage industries. The extension of the scheme will cost Rs. 833 crores per annum. The scheme will be in addition to the development of ancillaries and subsidiaries. According to the paper effective and speedy use of the country's buffer stock particularly of foodgrains can also become an important instrument for generating employment. The paper suggests that productivity should rise at 3.7 per cent per annum[9].

2. A comprehensive plan of bank credit on district level need to be so worked out that those living below the poverty line in rural areas are immediately attracted to engage themselves in gainful employment. A well-knit marketing system for indigenously produced goods is an essential requirement for the success of these self-help schemes which need more increased attention of the Government.

3. There are particular sectors of activity which are preferable for planning at the local level like agriculture, minor irrigation, animal husbandry, fishery, cottage and small industries, water supply, housing and education etc. These activities will absorb a large proportion of surplus labour solving the problem of unemployment in rural areas.

4. Each district, taken as a planning region, will have its own strategy which is lacking in any centralised planning. So a case for multi-level planning should be made in the wider context of the realities of life. It is for this reason that the Balvant Ray Mehta Study Team had recommended the block as an ideal unit for decentralised planning with an eye to employment strategy. Block level planning should be executed as a complementary unit of district level planning for the sake of administrative expertise, control and equitable distribution of infrastructure facilities.

5. No doubt, action is being taken for the amelioration of the conditions of small farmers and marginal farmers in the country but the progress has been negligible with regard to land reforms and consolidation of holdings which can raise the standard of living of lower section of the society and to an extent generate more employment avenues.

6. Given the magnitudes of unemployment problem in India, it is necessary that the speed of investment is re-doubled in such sectors as irrigation, command area development and development of subsidiary occupations. If unemployment is to be wiped out and a reasonable standard of living is to be secured for everybody, everything possible should be done urgently to limit the numbers of fast growing population through intensifying the family planning efforts. Only pockets of heavy unemployment and under employment (disguised unemployment) should be selected for concentration of plan efforts as have potentiality for becoming centres or poles of growth which can intensify agricultural operations and non-farm activities for more employment[10]. But a welfare state sometimes has to neglect this principle at the touch stone of balanced regional growth specially with an eye to unemployment problem in a backward area.

7. It is important for rural development that the overall relationship between input and output prices within agriculture and the terms of trade between agriculture and other sectors of the economy should be such as to stimulate growth in the rural areas.[11]

8. Too often, the selection of priorities is also subjected to the competition of different sectors of the economy for the same sources affecting saving potentials. So, there is the need for price parity between the organised sector production and decentralised sector production in order to maintain the economically productive activities undertaken by the poor artisans peasants and small entrepreneurs.[12]

9. The Committee on Tax Measures to Promote Employment headed by Dr. V. M. Dandekar, while considering wage subsidy as a means of generating employment, felt that wage subsidies might result in higher revenue costs with very limited employment benefits. It, therefore, suggested that a very limited use should be made of this device for promoting employment. The Committee further exhorted that increasing employment through labour-intensive technology is a very temporary and transitional phenomenon.[13]

The share of the small-scale sector in total industrial production is about 40 per cent.[14] From the stand point of generating employment, this sector has a great role to play. But the success of the sector depends largely on how the small scale units are rehabilitated. Apart from setting up new institutions to provide services, financial aid and allocate funds, technical aid, guidance and assistance will go a long way in meeting the needs of small entrepreneurs for the sake of higher employment.

REFERENCES

1. J. P. Sexena: Manpower planning, *Yojana*, Yojana Bhavan, November 16, 1969, pp. 25-32.

2. The *Eastern Economist*, March 30, 1962, p. XII.

3. Maridul Espen, Characteristics of Growth of Unemployment in Kerala, *Economic Times*, Calcutta, April 6, 1979, p. 5.

4. P. R. Gupta: *Science and Technology*, Yojana, Vol. XXII/4, March 1, 1978, p. 15.

5. *Economic Survey*, The Times of India, June 1977, p. 9.

6. *Competition Master*, May 1977, No. 10 p. 668.

7. Minimum Needs Programme: *Yojana*, August 15, 1978, pp. 19-22.

8. K. S. V. Menon: Backward Areas (Imbalance in Resources Distribution), *Economic Times*, May 29, May 30, 1979, p. 5.

9. *Samachar*, New Delhi, October 23, 1977.

10. Dr. Kedar Nath Prasad : Some Aspects of Regional Unemployment, *Yojana*, January 9, 1972, pp.23-24.

11. Integrated Rural Development, *Yojana*, 16 July, 1979-A. R. Patel.

12. The Role of Agriculture in Economic Development, *American Economics Review*, September 1961, p. 579.

13. Gangadhar Gadgil, Dandekar Panel : Assessment of its Recommendations, *Economic Times*, Calcutta September 5, 1980, p. 5.

14. V. G. Mutalik Desai: Employment Growth : Promoting Rural Industry, *Economic Times*, August 1, 1980, p. 5.

SUPPORTING REFERENCES

1. Keilhan, W. *Principles of Private and Public Planning.*

2. Lewis, W. A. *The Principles of Economic Planning.*

3. Dickinson, H. D. *Economic of Socialism.*

4. Meade, J. E. *Planning and Price Mechanism.*

5. Nurkse, R. *Capital Formation in Under-developed Countries.*

6. Lewis, *Theory of Economic Growth.*

7. W. W. Rostow, *The Process of Economic Growth*, Oxford Publication, 1980.

8. Beveridge, *Full Employment.*

9. *Studies in Economic Planning*, Edited by Dr. Ram Bihari Singh.

10. Hayek, P. A. *The Road to Serfom.*

11. Gunnar Myrdal, *Asian Drama.*

Programme of Action to Assist Poorest Countries

THE United Nations Conference on the Least Developed Countries on September 14, adopted a substantial New Programme of Action (SNPA) that will increase aid to the world's poorest and weakest countries in the 1980s and help bring about far-reaching restructuring of their economies in the interest of enhancing their long-term viability. Climaxing two weeks of discussion and negotiations in which representatives of 142 countries took part, the final plenary session approved a wide-ranging programme that is designed to transform the economies of the least developed countries towards sustained self development and enable them to provide, at least, internationally-accepted minimum standards of nutrition, health, housing and education, as well as job opportunities to all their citizens, particularly to the rural and urban poor.

The programme, adopted by consensus, stated that all donors have agreed to make a special effort to increase their contribution to the least developed countries. Most donors of Official Development Assistance (ODA) will devote in the coming years 0.15 per cent of their gross national product (GNP) to these countries. Others will double their ODA to the least developed countries in the same period.

Taken together, these efforts are likely to achieve, by 1985, a doubling of ODA to the least developed countries, compared to the transfers to them during the last five years. This pledge was considered as likely to go a considerable way to meet the needs for increased aid of the least developed countries.

During negotiations, agreement was reached on that part of the Programme dealing with additional financial resources that would be made available to the least developed countries. On the basis of development programmes presented by the least developed countries, their external financing requirements (which exceed $6.6 billion per year at 1980 prices) would be 35 per cent higher in real terms on average during the first half of the decade, representing an extra amount of $5.7 billion on an average per year, while in 1990, total concessional flows should rise to $24 billion per year at 1980 prices.

The dependence of the least developed countries on external aid is indicated by the fact that they are now able to finance only half of their imports out of export earnings. The import costs of these countries has risen by $10 billion in the last decade with only a small increase in the real volume of imports.

In the introduction to the Chapter on the general situation and national measures the Conference stated that the least developed countries have the primary responsibility for their overall development. Chapters are devoted to measures that should be envisaged at the national level in key sectors such as food and agriculture, human resources and social development, natural resources and energy and the manufacturing industry.

Growth of Public Expenditure in India

Br **D. K. Misra** * *and* **V. K. Singh** **

The phenomenal growth in public expenditure in India has conformed to Wagner's Law of ever-increasing state activity. But there is no coherent theory which explains why it should be so. The increase is largely explained by the welfare role played by the Government and the need to raise funds for financing the development plans. In this article, the authors test the existing theories against empirical evidence and emphasise the need for effecting economies in public expenditure.

PERHAPS the most general observation that can be made about governments' activities is that they have grown, both relatively and absolutely, in all countries of the world. This commonplace observation must necessarily serve as the starting point for any systematic treatment of the political economy of public expenditure, for the growth of government lies at the heart of continued controversy over the role of the public sector. This controversy is particularly acute in a mixed economy where the public sector is growing more rapidly than the private and where it often appears that this growth is at the expense of, or contributes to a diminution in, private economic activity. In any economic system, regardless of the relative growth of public and private activities, there will be difficult and controversial choices in selecting the appropriate composition of government expenditure and in choosing among alternative government programmes that are intended to accomplish social goals. It is, therefore, useful at the outset to describe the major factors that have contributed to the growth and changing character of governmental outlay.

There is no doubt that wars among nations have been a major factor contributing to the increase of public activities. National governments expand the scope and range of their activities greatly in the conduct of war. New programmes of regulation and direction of the private economy are undertaken. To secure increases in the output, governmental outlay is expanded for productive facilities, as well as for transportation and other social overhead capital. Not all of these facilities are dismantled after the war. This is because many governments have come to accept the concept of 'welfare state' as one of the planks of their policies which made it incumbent on them to take up varied functions resulting in the increased volume of public expenditure.

In underdeveloped countries also, the volume of public expenditure has shown a rapid rise from the beginning of the latter half of this century. Many of the governments in these countries have taken upon themselves the role of raising the stagnant living standards of their people through increased tempo of investment by comprehensive developmental planning. Their functions, therefore, have become more varied and of greater complexity than those of a modern Western State. The public expenditure of these developing countries will continuously increase further. These rising trends in public expenditure have created considerable public interest in recent years in the question of its size, distribution and control.

Over one hundred years ago Adolph Wagner, a leading German economist of the day, propounded the "law of ever-increasing state activity" which amounts to a forecast that the proportion of public expenditures to gross national income must be expected to rise in the forseeable future. Wagner's view is that the process of economic growth brings with it an increasing complexity in social and economic relationships, and increasing public expenditures become a necessary condition for such things as the satisfactory functioning of the market economy. Increased public expenditures of other kinds (such as "infrastructure investment) are regarded as a prerequisite for continuous and stable economic growth rather than simply a consequence of such growth. Further, as the income of the community increase it may choose some part of their enlarging possibilities of consumption in the form of publicity provided goods and services. Another reason advanced is that rising income facilitate acceptance of measures aimed at the distribution of income and wealth, of a kind that can more effectively be carried out if the public sector is relatively large.

The above argument, though it leads to the conclusion that there will be an absolute increase in public expenditure over periods, does not indicate any particular size or rate of increase of the public sector relative to national income that can in some way be demonstrated to be right. A rising volume of public spending over a period when national income is increasing is equally compatible with an increasing, decreasing or constant share of a country's output passing through the hands of government. Indeed, there is a good deal of agreement about the kind of factors that influence the absolute growth of public expenditures than their importance and their disirability. In the absence of such guiding principles, a good deal of present and post discussion of public expenditure is inevitably lacking in conviction, it offers little more than competitive assertions about the burdens of public spending.

Absence of a comprehensive theory of public expenditure is no bar to the study of the trends in public expenditure if some useful conclusions can be drawn from it. The following table gives the revenue and capital account of the Central and State Governments from 1950-51 to 1979-80 with the corresponding figures of national income, population and wholesale price index. The table shows that from 1950-51 to 1979-80, there is a striking increase in total government expenditure[1]. The total government expenditure amounted to Rs. 844.54 crores in 1950-51 and this increased to Rs. 1,335.10 crores in 1955-56, Rs. 2,488.23 crores in 1960-61, Rs. 4,830.56 in 1965-66, Rs. 7,601.90 crores in 1970-71, Rs. 16,522.60 crores in 1975-76 and Rs. 26,229.50 crores in 1979-80 (B.E.)-an increase of 3005.7 per cent from 1950-51 to 1979-80.

---

*Dr. Misra is Reader, Department of Economics, B. H. U., Varanasi-221005.

**Mr. V. K. Singh is Research Scholar, Department of Economics, B. H. U., Varanasi-5.

The national income[2] increased far less rapidly by comparison, from Rs. 9,530 in 1950-51 to Rs. 9,980 in 1955-56, Rs. 14,150 in 1960-61, Rs. 20,700 in 1965-66, Rs. 34,368 in 1970-71, Rs. 61,605 in 1975-76 and Rs. 96,173 in 1979-80 — an increase of 846.2 per cent from 1950-51 to 1979-80. This figure is profoundly influenced by the rise in prices. It is discerniable even if this factor of increased prices is eliminated. Another factor which might have caused this increase expenditure might be the rise in population, for the demand for government services must depend, at least to some extent, upon the numbers able to benefit from them.

But in India, it is doubtful how for and in what manner the rise in population affects the trends in public expenditures for the effect of population depends upon the kinds of services that government is providing and a large part of the present government expenditure is in the form of defence, administrative and development expenditure which have no direct relation with the changes in population growth. Rise in population will indirectly affect the expenditure in that the government may increase its development expenditure according to the rise in population if their aim is to raise the *per capita* income of the people. Even if the rise in population is accounted for there is still a profound increase in the public expenditure. Further, the table reveals that national income has risen at a much slower rate than public expenditure, which means that the share of public expenditure in national income has been increasing.

GOVERNMENT EXPENDITURE, NATIONAL INCOME POPULATION AND WOLESALE PRICE INDEX.

Financial Year	Total (net) Government expenditure in crores of Rs.	National income in crores of Rs. at current price	Population in crores	Price Index 1950-51=100
1950-51	844.54	9530	35.9	100.1
1951-52	1002.47	9970	36.5	106.1
1952-53	914.61	9820	27.2	92.8
1953-54	957.76	10480	37.9	97.1
1954-55	1181.79	9610	38.6	90.5
1955-56	1335.10	9980	39.3	85.8
1956-57	1572.96	11310	40.1	97.7
1957-58	1969.48	11390	40.9	100.6
1958-59	2035.40	12600	41.8	104.8
1959-60	2168.96	12950	42.6	108.7
1960-61	2488.53	14150	43.4	115·9
1961-62	2591.78	14780	44.4	116.1
1962-63	3344.16	15380	45.4	113.9
1963-64	4014.17	17200	46.4	125.6
1964-65	4465.53	20400	47.4	141.6
1965-66	4830.26	20700	48.5	144.0
1966-67	5680.55	23848	49.5	177.6
1967-68	5713.15	28054	50.6	197.2
1968-69	5922.43	28607	51.8	195.1
1969-70	6694.39	31606	52.9	199.3
1970-71	7601.90	34368	55.0	210.3
1971-72	9060.50	36745	56.0	218.8
1972-73	10343.40	40422	57.0	240.5
1973-74	11545.60	50665	59.0	295.2
1974-75	13499.40	59315	60.0	263.6
1975-76	16522.60	61605	61.0	351.7
1976-77	18283.80	66561	62.0	360.9
1977-78	20409.60	73157	63.8	390.9
1978-79 (R.E.)	24127.80	80090	65.1	390.9
1979-80 (B.E.)	26229 50	90173	66.6	409.9
% increase of 1979-80 over 1980-81	3005.7	846.2	85.5	309.9

Sources : *For Public Expenditure* :- (i) R.B.I., Banking and Monetary statistics and it supplement, 1964. (ii) R.B.I.: Report on currency and Finance, Volume II, 1967-68, 1970-71, 1973-74, 1976-77 and 1977-79. *For National Income* :- Government of India: Economics Survey 1970-71, 1976-77 and 1979-80, 1980-81. *For Population* :- (i) C.S.O., Nation Account Statistics, January, 1979, p. 136. (ii) R. B. I., Report on currency and Finance, Volumes II, 1976-77 and 1978-79.

Though these facts prove Wagner's law that the proportion of public expenditure in the national income will increase over a period, there is still much to be said about other factors relating to public expenditure. Wagner and his followers concentrated on an explanation of the secular growth of public spending. At the outset of their study T. Peacock and Jack Wiseman[3] pointed out that they do not fully accept the approach of Wagner as it is concerned with the secular growth of public expenditure only. In their own words, apart from the secular trend of public expenditures "there are other aspects of the developments of public expenditures, such as the time pattern of public expenditures growth, which seem to us equally significant". If the expenditures of governments in particular years is drawn into a graph, there will be humps over certain periods which produce a discontinuity in the growth pattern which they called "displacement effect"[4]. Even if all the war-related expenditure is eliminated, the "displacement effect" is still discernible. This, they explained, was due to the expenditure on social services. In India also, the rise in public expenditure is mainly accountable for by the rise in social and developmental services.

Even the approach of Peacock and Wiseman is not sufficient to explain the year to year changes in public expenditures in underdeveloped countries. Public expenditure is devoted more and more to the planned development of the economies. Much of the change in the public expenditure is explainable in the wider context of planning. The theory of public expenditure in those developing countries has to be reoriented in the sense that it should be linked with the planning policies and requirements in these countries.

There is another aspect of public expenditure which requires careful consideration. The war experience and the Keynesian influence have made the theory of public expenditure to be linked to the theory of what is called 'functional finance'. Many governments in advanced countries have come to accept public expenditure as one of the weapons in combating imbalances (in the narrower sense of price and employment imbalances) in the economy. As Smithies says, "........there is wide agreement that fiscal policy must form part of any programme for economic stability"[5].

But in a developing economy like India, this is of less importance because of two reasons: Firstly, the public expenditure forms a minor portion of national income and therefore to that extent its effect is limited. Secondly, much of the expenditure is in the forms of planned development expenditure and plan rigidities make it difficult to vary the nature and amount of expenditure. In spite of these factors, there is much scope to manoeuvre public expenditure to combat inflation or seasonal variation in prices. This policy has not so far been used by the government.

Further, the rise in public expenditure during the last decade is so collosal in its amount and so varied in its composition that it requires a complete investigation into its various aspects. Because the character of public expenditure has a bearing not only on the rate of growth of income but also on the amounts of tax that can be raised and on the methods, when targets are fixed in terms of expenditure, there is likely to be some loss in effectiveness and possible room for economy and avoidance of waste. In this respect, the recommendation of the Taxation Enquiry Commission that "we are ourselves impressed with the need for thorough and careful enquiry both in the central government and the states into the whole question of public expenditure and suggest that such enquiries should be undertaken and entrusted to sufficiently high-power bodies[6]" which has not so far been implemented, is worth considering and the sooner it is implemented with the wider scope of the role the public expenditure can play in stabilising the economy the more useful will it be from the whole point of public expenditures and planning.

In addition to these, there is one more factor which is very likely to be missed in the explanation of public expenditure. This is the influence of political factors on the nature and extent of public expenditure. As Dalton[7], in the very beginning of his celebrated book, says: "public finance is one of those subjects which lie on the border line between economics and politics", the influence of the latter aspect cannot be over emphasised.

NOTE AND REFERENCES

1. The total Government expenditure includes (i) the whole expenditure charge to Revenue, in the Central and State Governments budgets, (ii) and the capital outlay figured in the Central and State Governments Budgets. One has not taken into consideration the loans and advances made either by Central Government or by State Government, firstly, because the loans are purely financial in character, and secondly, because the complexities involved in eliminating the intergovernmental loans and repayments are insoluble. It may be noted that one has included grants and Miscellaneous items between the Union and State Governments given by the Central Government to State Governments and the State Governments to the local bodies. The reasons for including grants in total expenditure are that (i) they are charged by the government, and (ii) they are not rapaid the recipients.

2. The choice between the two (GN..P. and N.N,P.) is quite debatble. Still in almost all studies of our type, the choice has fallen ultimately on G.N.P. because of the very genuine and formidable problem of estimating current consumption and capital. However we had no choice in the matter but to have net National product at factor cost as our concept. It is chosen not because of its greater relevance over Gross National Product at factor cost, but because, the estimates even from 1950-51 onwards are for net income. The choice of N.N.P. suits will to our study, in view of the fact that "Government expenditure" chosen is net.

3. Alan T. Peacock and Jack Wiseman, *The Growth of Public Expenditure in the United Kingdom*, A Study of the National Bureau of Economic Research, Princeton University Press, Princeton, 1961.

4. Displacement effect is defined as a discontinuity in the growth pattern which produces expenditure peaks during social disturbances.

5. Arthur Smithies, "Federal Budgeting and Fiscal Policy" — in *Survey of Contemporary Economics*, p. 178.

6. Taxation Enquiry Commission, volume I, p. 34.

7. H. Dalton, *Principle of Public Finance*, 1971, p. 1.

T. N. NEWSPRINT PROJECT GETS IBRD LOAN

A World Bank loan of $ 100 million to India was approved for the construction of a bagasse-based pulp and paper mill in Tamil Nadu. The $ 100 million Bank loan will be used for construction of a pulp and paper mill. This will be the first project in the pulp and paper industry to be financed by the World Bank in India. The $ 237.5 million project consists of a dual-purpose pulp and paper mill with a capacity of 100,000 tonnes per year of newsprint, or 80,000 tonnes per year of printing and writing paper or any combination thereof.

It will use bagasse, a by-product of sugar production, which is currently used as fuel in the sugar mills, as primary raw material. The use of this begasse as a substitute for long fibre pulp, which is in short supply in India, offers an economic means to alleviate India's dependence on imported newsprint. India currently produces about 15 per cent of its newsprint consumption. The new mill will be located in the State of Tamil Nadu, on the Cauvery River, about 500 kilometres south-west of Madras.

book reviews

How to Smuggle in a Presidential System

ANIRUDH Prasad's book* appears at an opportune moment when the country is witnessing a lively, if somewhat acrimonious, debate on the need for replacing the present parliamentary system by the presidential system. It is worthwhile to examine the origin of the debate before proceeding with a review of the book. In a country where the literacy rate barely exceeds 30 per cent, the majority of the population is hardly likely to be exercised over the form of Government. As such, the debate over alternative systems is confined to a tiny faction of the population—the interested elite, to be more precise.

One has to reckon with a major paradox of life in this country: Even though the masses are not involved in the major constitutional changes that are brought about, any major switch-over from one political system to another affects their daily life—their future. To be sure, the demand for a change from the parliamentary system to the presidential system is being voiced by a section of the ruling party, Congress (I). The purpose of these advocates of change seems to be to perpetuate the hold the existing leadership on the levers of power indefinitely. Their motives are thus suspect.

Even so, one should welcome a public debate not only on the relative merits of the presidential and parliamentary systems but on the causes of the failure of the existing political institutions to live up to the expectations of the founding fathers. It may be added in passing that political systems often collapse in developing countries not because of their inherent defects but because the infrastructure supporting these systems remains fragile. It cannot be denied that the Westminster model that India has copied from Britain has its weak points but its failure to ensure orderly progress in an atmosphere of political tranquillity is not due to these weak points; it can be traced to the failure of the ruling elite to observe the rules of the game. In this sense, one cannot pick a system, off the shelf, that is best suited to the needs of the country. Any debate on the relative merits of political systems is pointless so long as (a) the elite who provide political leadership in this country remain self-centred, myopic and power-hungry and (b) the common people remain untouched by the political processes.

Be that as it may, Anirudh Prasad has done a useful service by providing in this handy volume a lively commentary on the working of the presidential model as well as the Westminster model—with all their variants—in several countries—developed as well as underdeveloped. The author, after touching upon various forms of government, subjects the parliamentary system to an in-depth analysis, taking the case studies of Britain, Canada, Australia, West Germany, Italy and so on and highlighting the difference between parliamentary system with monarchy and that without monarchy. He focuses on two major variants of the presidential system—the one with checks and balances and the one without them. He places the United States in the first category and puts France and Sri Lanka under the second category.

He then explains the salient features of the system of parliamentary democracy adopted by India and shows how it differs from its Westminster model in certain vital respects. The author shows a keen understanding of the working of the system in India and pinpoints, with uncanny precision, the causes of its failure—lack of concern for healthy norms, weak and divided opposition, general public apathy, agitational politics, defections, the centre's encroachment into the domain of the states, enfeeblement of the judiciary, the preoccupation of M. P.s and M.L.A.s with their own privileges and lastly, populist policies. The author embellishes his analysis with specific instances of political corruption and abuses of authority by the men in power. Most instances cited by the author pertain to the latter half of the past decade.

Whether, by switching over to the presidential system, the country can avoid the abuses to which the parliamentary system is prone is a moot point. By ensuring the separation of powers and by providing for checks and balances, the presidential system may, in theory, help in reducing political corruption and misuse of political power but the experience of many developing countries having the presidential system is not unformly encouraging. Furthermore, the advocates of the presidential system in India seem to be less keen on having a corruption-free system than on having a system in which the chief executive enjoys unlimited powers and is answerable to no one except to the amorphous entity called the people.

This is why even ardent advocates of change (in favour of the presidential system) like Nani Palkhivala caution against any radical change in favour of another system. They are keen on building healthy political norms and on bringing about a change in the attitudes of the people. Those who favour the French model need to be told that de Gaulle trundled in the presidential system in order to prevent his country from sliding towards anarchy. There is no assurance that, in India, if we adopt the French model, we will be reducing the scope for political corruption and for misuse of political power. Like Bokassa's diamonds (*a la* Giscard) Antulay's extortions could play havoc with even a presidential system. The enthusiasts of the presidential system may not also be unaware of the fact that so long as the basic structure of the Indian Constitution remains outside the purview of Parliament's legislative powers, there is no means by which the present system can be replaced wholesale by another system.

---

* PRESIDENTIAL GOVERNMENT OR PARLIAMENTARY DEMOCRACY by Anirudh Prasad, with foreword by V. R. Krishna Iyer, Deep & Deep Publications, D-1/24, Rajouri Garden, New Delhi-110027, Pp. 156, Rs. 40.

Anirudh Prasad should be thanked for helping the general public in getting a close understanding of the issues involved in the debate. And the foreword by V. R. Krishna Iyer, former judge of Supreme Court, and the appendices which contain the views of legal luminaries like Chagla, Tarakunde and Palkhivala enhance the value of the book to the reader. If a suggestion is not out of the way, the author should, while bringing out the next edition of the book, pay more attention to grammar and spelling. One is shocked at the number of bloomers that have found their way into the book.

—K. N. S.

Growth Profile of South Asian Countries

Survey of Economy, Resources and Prospects of South Asia by M. L. Qureshi, Marga Institute, Sri Lanka Centre for Development Studies, 61, Isipathana Mawathe, Colombo-9, Pp. 274.

THIS survey of the economies of the countries of South Asia prepared by a leading Pakistani economist for Sri Lanka Centre for Development Studies makes its appearance when the emphasis has shifted from North-South dialogue to South-South dialogue. This is not to suggest that developing nations can solve all their problems through cooperation among themselves—transfer of technology and of capital still play a significant role in development — but to underscore the importance of regional cooperation.

Qureshi's study, which is restricted to seven countries of South Asia, should be of considerable interest to India which not only accounts for 77 per cent of the total population of the region but also has a near-monopoly of the bulk of the region's natural resources. The study covers India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan, and Maldives. For the purpose of comparisons, Bhutan and Maldives can be counted out since they are very small countries. Nepal, despite its smallness, is important in view of its hydel potential which can be shared with India. When we talk of regional cooperation, it is virtually among the four South Asian countries, namely, India, Pakistan, Bangladesh and Sri Lanka.

Qureshi's study, which covers the major sectors of the economies of these countries, can be taken more as a curtain-raiser than as a definitive work. It provides a bird's-eye-view of the relative importance of these countries, with their plus and minus points. Some of the facts stand out. While the region accounts for 20 per cent of the world population, it has only 3.31 per cent of the world's land area. This is reflected in a high population density and a meagre percentage of land under forests. Again, the region is rich in man power but poor in natural resources. Its *per capita* GNP is less than one eleventh of the world average. Poverty is endemic.

All the countries of the region have undergone some amount of structural transformation — shift from agriculture to other sectors— but the transition has been very slow in respect of Nepal and Bangladesh. Despite the predominance of agriculture in the pattern of income-generation, the region remains a net importer of food. While India has attained a satisfactory savings ratio, domestic savings that can be used for investment remain inadequate in the other countries of the region — notably Bangladesh — with the result that they have to depend on external assistance to a large extent for financing their development programmes. The industrial sector reveals wide differences.

An interesting fact which emerges from Qureshi's study is the remarkable progress achieved by Sri Lanka in social services — primary education and health — inspite of a low level of *per capita* income. Measured by the Physical Quality of Life Index (PQLI), Sri Lanka stands almost on par with high income countries. While the PQLI for low income countries is 40 per cent, the PQLI for Sri Lanka is 82 per cent. As Qureshi points out, "the basic needs approach to development holds out the possibility of the eradication of poverty with relatively modest increases in absolute levels of *per capita* income". As Qureshi will readily concede, there are regional variations in PQLI within a country. Kerala State, in India, has achieved a level of PQLI which is comparable to that of Sri Lanka.

The study underscores the need for fostering higher growth through greater cooperation among the countries within the region. The author is aware that such a cooperation is bedevilled by political differences. By virtue of its size and geographical location, India has a major role to play in improving the volume of trade among the South Asian countries. This, the author points out, is possible only if this country abandons its pursuit of self-sufficiency in the production of all goods and opens its doors to the consumer goods manufactured by the others. But it is difficult to pin point where the fault lies. If, for instance, India opens its doors to imports from the neighbouring countries without identifying comparative advantages, the net result will probably be an influx of third country goods both from Nepal and Pakistan.

India, which enjoys the tenth ranking in the world in terms of industrialisation, is in a position to transfer technology which best suits the needs of these countries. This calls for a change of attitudes and preferences. With Sri Lanka looking to Singapore and with Pakistan looking to the United States for technical assistance, the region faces an uphill task in enlarging the area of economic cooperation.

— K. N. S.

R B I ANNUAL REPORT 1980-81 *

GNP Improves But Pressures Persist

FROM the viewpoint of output, the year July 1980 to June 1981 would appear as one of good recovery over the previous year. With favourable weather conditions, agricultural production which had suffered a severe setback in 1979-80 is expected to have reached a very high level. Industrial output which had been decidedly sluggish in 1979-80 showed an uptrend after June 1980, helped by the improvement in the infrastructural areas of power and transport. As a result, the GNP which had declined by 4.5 per cent in real terms in 1979-80 (fiscal year) is expected to have risen by about 7.0 per cent in 1980-81. The favourable turn in output could not by itself halt the uptrend in prices. Although the pace of price increase has abated, the pressure on account of certain sensitive commodities still continues.

The adverse trend in foreign trade, which followed the hike in oil prices, grew more pronounced during the year, with a further decline in foreign currency reserves. The position in respect of foodstocks — the other reserve which has been a considerable source of strength for the economy in the past few years — also weakened, with increased offtake from stocks not adequately matched by accretions through fresh procurement. Another disquieting feature is that, despite the dampening influence of a decline in foreign currency reserves, the pace of overall monetary expansion has continued to be high.

Agricultural Production. Foodgrains output is expected to be 133 million tonnes, an improvement of as much as 24 million tonnes over the production of 1979-80 and marginally higher than the record production of 1978-79. Among non-food cash crops, oilseeds, cotton and jute are likely to register some improvement in production, while sugarcane is expected to record a fairly substantial increase. Offtake of foodgrains from the public distribution system including issues under the National Rural Employment Programme increased from 11.66 million tonnes in 1979 to 14.84 million tonnes in 1980. The pace of offtake has slackened in the first six months of 1981, with an aggregate release of 6.16 million tonnes, compared to 7.93 million tonnes in the corresponding period of 1980. The overall stock level has declined to 13.6 million tonnes at end-June 1981 from 16.3 million tonnes at end-June 1980 and 21.4 million tonnes at end-June 1979. A programme is now on hand to import 1.5 million tonnes of wheat in order to improve the public sector foodstock position.

PRODUCTION TRENDS

	1979-80	1980-81
Foodgrains (million tonnes)	108.9	133.0
Industrial output (1970 = 100)		
Monthly average	148.1	154.2
Growth rate (%)	—1.4	+4.1

Industrial Production. There was also a marked pick-up in industrial production during the year, facilitated by the measures taken to ease infrastructural constraints such as shortages of power and coal, transport bottlenecks and paucity of essential inputs like steel and cement, which had hampered growth in industrial output in 1979-80. In the period January-June 1980, the index of industrial production recorded a decline of 2.9 per cent, as against an increase of 3.3 per cent in the corresponding months of 1979. In contrast, in the second half of the calendar year 1980, the index rose by 4.6 per cent, whereas it had declined by 0.9 per cent in the same period of the previous year. The improvement continued in the period January-May 1981 with an increase of 9.5 per cent in the index, as against a decline of 3.4 per cent in the same period of 1980.

During the financial year 1980-81 (April-March), electricity generation increased by 5.7 per cent as compared with the previous year's growth of only 2.1 per cent. Transport in general, however, continues to be a major bottleneck for the increase in industrial production, despite some improvement in the railway movement of coal for the use of key industries such as power, steel, fertilisers and cement.

Trade balance. While output trends were encouraging, there was a further deterioration in the country's external payments position. During the fiscal year 1980-81, the trade deficit widened to Rs. 5,535 crores, which is well over double the 1979-80 deficit of Rs. 2,284 crores. The deterioration was the result of a substantial increase of Rs. 3,712 crores in imports, combined with only a modest rise of Rs. 461 crores in exports. The principal factor behind the increase in the import bill was the rising cost of crude oil and petroleum items. Imports of POL items in 1980 81 are provisionally placed at Rs. 5,118 crores; this forms a little over two-fifths of the total import bill and equals to about three-fourths of the total exports during the period. The growing international inflation affected the cost of other imports and the need to import some exceptional items like sugar and larger quantities of coke and cement, along with essential consumer goods such as vegetable oils, also contributed to the rise in the import bill. At the same time, the unfavourable international economic situation continued to act as a constraint on exports and, in terms of volume, the export growth declined somewhat over the year. Invisible receipts might have shown a further improvement during the year. The new inflow of external assistance is expected to have risen markedly to Rs. 918 crores (exclusive of the receipt of Rs. 545 crores under IMF Trust Fund loan) in 1980-81 from Rs. 483 crores in 1979-80.

---

* Summary of the Report of the Central Board of Directors on the working of the Reserve Bank of India for the year ended June 1981.

Exchange Reserves. The foreign currency assets of the Reserve Bank declined during 1980-81 (July-June) by Rs. 448 crores to Rs. 4,327 crores as on June 30, 1981, as compared to the fall of Rs. 571 crores in 1979 80. However, if the receipts of Rs. 545 crores under IMF Trust Fund loan and drawings of Rs. 274 crores under Compensatory Financing Facility of the IMF in 1980-81 were excluded, the fall in foreign currency assets during the year would be Rs. 1,267 crores, which is a markedly larger decline in these assets as compared to that in 1979-80. SDR holdings declined by SDR 42 million to SDR 481 million by end-June 1981, in contrast to a rise of SDR 191 million last year.

FOREIGN TRADE

(Rs. crores)

	1979-80	1980-81
Imports*	8,498	12.210
Exports*	6,214	6.675
Balance of trade*	—2,284	—5.535
Foreign assets†	—571	—448

* Provisional † end-June.

Government finances. The overall budgetary deficit of the Centre and the States in the fiscal year 1981-82 is estimated at Rs. 1,923 crores (Budget Estimates), as against the deficit of Rs. 2,523 crores (Revised Estimates) in 1980-81. Developmental expenditure is projected to grow at a lower rate of 4.2 per cent than non-developmental expenditure which is expected to rise by 7.5 per cent. The anticipated combined deficit for 1981-82 is lower than the deficit for both 1979-80 as per the Accounts and the Revised Estimates for 1980-81. As a consequence of the revenue deficit in the Central Government budget, dependence on the market has been growing. Gross market loans now in the range of Rs. 3,000 crores have gone up by two-thirds since 1978-79 and form nearly 13 per cent of total receipts taking the revenue and capital accounts together. It is not possible for the narrow market for Government securities to absorb such a sharp increase in the quantum of Centarl Government borrowing, with the result that the Reserve Bank has had to take on an increasing portion of these loans. The Bank's holdings of Central Government securities increased by Rs. 1,229 crores in 1980-81, as against the increase of Rs. 407 crores in 1979-80 and Rs. 29 crores in 1978-79.

BUDGETARY POSITION
(Central and State Governments)

(Rs. crores)

	1980-81 (Revised)	1981-82 (Budget)
Receipts	35,679	37,938
Disbursments	38,202	39,861
Of which developmental expenditure	24,608	25,634
Net position	–2,523	–1,923

Although the decline in foreign exchange reserves offsets for the time being—and even necessitates to some extent—the expansionary impact of budgetary transaction, it is clear that large revenue deficits at the Centre cannot be continued for long. It is in this context that several steps were taken in July 1981, in addition to the steps taken in the 1981-82 Budget. The retail prices of various petroleum products and fertilisers were raised, expected to yield over Rs. 1,070 crores in the fiscal year 1981-82. The rates of compulsory deposits in the case of persons with annual incomes above Rs. 50,000 were increased. The statutory liquidity ratio of commercial banks was raised from 34 per cent to 35 per cent, which would increase the absorption by banks of Government and other approved securities.

The tendency among the States to resort to large overdrafts from the Reserve Bank seems to have re-emerged. The recourse to overdrafts by State Governments had declined considerably in 1979 80 following the introduction of the new scheme of regulation of such overdrafts put into effect in October 1978. But some States started running overdrafts since the beginning of 1980-81 despite the new scheme, and the total outstanding overdrafts as on June 26, 1981 amounted to Rs. 641 crores. The overdrafts were cleared by the concerned State Governments with the help of assistance released by the Central Government to all the State Governments and there were no outstanding overdrafts at the end of June 1981. But urgent action is necessary to ensure that the fiscal policies of State Governments do not add fuel to the inflationary fire.

Monetary trends. After two years of high rates of monetary expansion, the rate of growth in the supply of money was markedly declined in 1979-80. In 1980-81 (July-June), however, money supply (M_3) expanded at a rate higher than in the preceding year, by 18.8 per cent as against 15.0 per cent. As in the preceding year, net bank credit to Government provided an important expansionary factor; the increase in 1980-81 was about Rs. 872 crores more than last yer. Bank credit to the commercial sector also rose more sharply by Rs. 6.373 crores or 20.4 per cent against Rs. 3,919 crores or 14.3 per cent. On the other hand, the negative impact of the decline in net foreign exchange assets of the banking sector has been higher than in 1979-80.

Credit Policy. Against the background of a continued high rate of monetary expansion, the overall stance of credit policy remained one of caution and restraint. With primary money liquidity already high, further expansion in primary money was a particular cause for anxiety especially in the context of the persistence of inflationary price trends. At the same time, there was an obvious need to support and sustain the improvement in output by ensuring that shortage of credit did not become another infrastructural bottleneck to the process of recovery. Monetary policy had hence to tread a cautious path and respond flexibly and quickly to the emerging situation. Simultaneously with the presentation of the budget for 1980-81, several changes were made in the deposit and lending rates structure, because of the persistence of inflationary perssures. Moreover, the various adjustments in lending rates applicable to the different categories of borrowers made from time to time, combined with the incidence of interest tax, had resulted in a plethora of rates and certain anomalies and these called for a rationalisation.

At the commencement of the November 1980—April 1981 busy season, the credit situation appeared well in hand. Expansion of non-food credit during the preceding season had been by and large in accordance with the broad guidelines given to banks. The rate of growth of deposits in the period April-October 1980 was perceptibly lower than in the corresponding period of the previous year. With no abatement of the pace of monetary and credit expansion, a package of measures to help contain inflationary pressures was announced on July 11, 1981. The Bank rate was raised from 9 per cent to 10 per cent effective from the close of business on July 11, 1981, and the date of reaching the cash reserve ratio of 7 per cent was advanced by three weeks to August 21. 1981. The statutory liquidity ratio was also raised from 34 per cent to 35 per cent of total demand and time liabilities to be reached in two phases—34.5 per cent effective from September 25, 1981 and 35 per cent effective from October 30, 1981. Further, in the area of selective credit controls, the minimum margins against stocks of wheat, paddy/rice and other foodgrains were raised by 10 percentage points across the board with the exception of advances against pulses and advances to roller flour mills against wheat.

With effect from July 18, 1981, the refinance rate in respect of both food and exports was raised from 9 per cent to 10 per cent, though the lending rates of banks for both food and exports were to remain unchanged. The need to adhere to the guidelines issued in May 1981 on credit expansion was once again stressed and the banks were required to bring about a rapid and significant correction in the pace of expansion of non food credit. The commercial banks' credit budgets for 1981-82 have been examined by the Reserve Bank and discussions have been completed with each of the major banks. These discussions have enabled banks to obtain a better perception of deposit growth in 1981-82. The banks have been advised to so modulate their non-food credit expansion during the July — September and October—December 1981 quarters that they do not infringe the guidelines for expansion of non-food credit set out in May 1981. In this context, considerable stress has been put on making effective the quarterly operaring limits for major borrowers.

Credit trends. While the aggregate deposits of banks moved up substantially by Rs. 6,807 crores during the period June 27, 1980 to June 26, 1981 (Rs. 4,706 crores in the preceding year), non-food bank credit increased by Rs. 4,529 crores (Rs. 2,967 crores in the preceding year). The rise in gross bank credit was of the order of Rs. 4,260 crores, against Rs. 2,385 crores in the last year. The impounding of bank reserves effected in July-August 1981 and the increase of one percentage point in SLR in September–October 1981 would help slow down the pace of credit expansion. Even so, the banks will have to take effective administrative and other steps to reverse the earlier trend quickly in the coming weeks.

With changes in the refinance policy such as the increase in base level from Rs. 2,000 crores to Rs. 2,200 crores for calculating food refinance entitlement with effect from April 1980, the termination of refinance facility under Small Farmers' Window with effect from July 1, 1980 and discretionary refinance being made available only for short periods and in exceptional circumstances, the Reserve Bank's accommodation to banks continued to decline during 1980-81.

BANK CREDIT AND DEPOSITS
(July-June)
(Rs. crores)

	1979-80	1980-81
Gross credit expansion*	2.385	4,260
	(+12.1)	(+19.2)
Aggregate deposit growth	4.706	6.807
	(+16.4)	(+20.4)
Credit-deposit ratio (at end-June)	66.3%	65.7%

Note : Figures in brackets indicate percentage variations.

* Including PCs.

Price situation. The uptrend in price level, which commenced in February 1979, continued in the year under review. The long-run effect of the price increases that have already taken place, for instance in respect of petroleum crude and products, and the effect of world inflation necessitated the raising of the administered prices of foodgrains as well as several industrial inputs which neutralised to a substantial extent the beneficial impact of higher output on the price level. Furthermore, the supply imbalance in certain critical commodities continued to exert considerable influence on the overall price level. Inflationary pressures thus still persist, although the pace of price increase slackened during the year under report. Over the year ended June 1981, the wholesale price index for all commodities averaged 265.9, as against the average of 228.1 in 1979-80, recording a rise of 16.6 per cent compared with that of 20.2 per cent in the previous year. On a point-to-point basis, the rate of increase in the index is considerably lower, the rise in 1980-81 being 11.0 per cent, comparsd to 23.2 per cent last year.

MONEY SUPPLY AND PRICES
(July—June)
(Rs. crores)

	1979-80	1980-81
Money supply (M_3)	+6,385	+9,174
	(+15.0)	(+18.8)
Wholesale prices (1970—71 = 100)	+23.2%	+11.0%
Consumer prices (1960 = 100)	+11.9%	+13.7%

Note : Figures in brackets indicate percentage variations.

Even so, the price situation remains difficult requiring continuing remedial measures by way of management of overall supplies as well as demand. The measures that need to be considered in this regrad would include a toning up of the administrative machinery for regulating trade practices in order to curb blackmarketing in crucial inputs and essential consumer goods. Further, the actual purchase prices offered by State Governments for agricultural commodities like sugarcane and foodgrains sometimes exceed the prices recommended by the Union Government; it is necessary that uniform price policies are followed throughout the country. The consumer price index for industrial workers (1960 = 100) increased from 386 in June 1980 to 439 in June 1981, indicating a rise of 13.7 per cent; in the previous year, the index had recorded a lower rise of 11.9 per cent. On an average basis, the rise was more pronounced at 11.9 per cent that of 10.3 per cent in the last year. The consumer price index for urban non-manual employees (1960 = 100) rose to 401 in June 1981 from 355 in June 1980, showing an increase of 13.0 per cent, compared to a lower rise of 11.6 per cent in the preceding year. In the case of urban non-manual employees, too, the rise on an avarage basis was more pronounced at 12.1 per cent than that of 9.6 per cent last year.

Saving and investment. Provisional estimates of domestic saving and investment in the fiscal year 1980-81 indicate that aggregate saving as a proportion of Net National Product (NNP) at market prices was slightly lower at 16.9 per cent, compared to 17.1 per cent in 1979–80 and considerably below the peak of 20.1 per cent attained in 1978-79. While the saving ratios of the household sector and the corporate sector showed marginal improvements during the year, the ratio for the public sector declined perceptibly. Even so, the estimated domestic investment in relation to NNP at market prices showed an improvement of about 1.4 percentage points to 19.0 per cent in 1980—81, as the sizeable increase in the inflow of foreign resources during the year more than made up for the marginal fall in the domestic saving ratio. The available indicators suggest that the improvement in investment is attributable more to fixed asset formation than to additions to inventory.

NATIONAL INCOME, SAVING AND INVESTMENT

(Tentative)

	1979-80	1980-81
National income*	—4.5	+7.0
Domestic saving†	17.1	16.9
Inflow of foreign resources†	0.5	2.1
Aggregate Investment†	17.6	19.0

* Per cent growth in gross national product in real terms. † As % of net national product at market prices.

Assessment and Prospects

Improvement in agricultural and Industrial output was obviously the most favourable development during the year under review. However, as anticipated in the last year's Report, the good harvest of 1980-81—expected to show record levels of foodgrains production—has not been in itself a strong enough factor to arrest inflationary forces. But there has been some slowing down in the pace of price increase. The analysis of price behaviour during the year has highlighted the influence of two factors. In the first place, the continuing impact of price increases already effected, which require the administered prices of various industrial inputs to be increased, represents the "snowball" effect. Secondly, a basic imbalance in the supply and demand prevails in respect of a number of critical commodities and, so long as this persists, even a marginal worsening of the imbalance in respect of one or more of these commodities generates considerable pressure on prices. Thus, sugar was a major factor in the rise in the price level in 1979-80 and still continues to exert some influence; oilseeds, vegetable oil and raw cotton have assumed significance this year. Pulses, an item with relatively low weight in the price index, and fruits and vegetables have also contributed to the price increase in the current year to a fairly significant extent. On the whole, the price increase this year is of a more general nature than in the last year.

The impact of the drought of 1979-80 was considerably muted through a drawdown of the reserve of foodgrains. Though the decline in food stocks was sharp, it is not in itself a matter for concern, as it is only illustrative of the mobility necessary of any reserve. The pace of replenishment of food stocks, however, has not been as brisk as might be expected. The pick up in the pace of procurement since April and the proposed import of wheat might, however, improve the overall public sector stock position. Even so, it seems likely that 1981-82 would commence with a lower public sector food stock level than in the past two years. In regard to industry, there has been a distinct revival of production over a wide range. However, there is need for further improvement in infrastructure to sustain a high and more widespread growth throughout 1981-82 and beyond. The continuing difficulties in respect of coal supplies especially to 'non-priority' sectors, the reported pile-up of coal at pit heads and the continuing port congestion are instances of the persistent infrastructural deficiencies.

The progress of the current South-West *monsoon* appears to be satisfactory so far. The outcome of the monsoon is of vast significance. A good *monsoon* is not only important for strengthening the agricultural situation but has relevance to hydel power output and hence to industrial production. It is also vital for preventing the emergence of adverse psychological reactions affecting the price situation.

A most disturbing element in the current situation is the widenning of trade deficit. Some relief on oil imports would undoubtedly follow the resumption of Assam oil production, and it is widely expected that international oil prices would remain stable in terms of U. S. dollar till end-1981. But the oil import bill for 1981-82 would bear the full impact of the oil price increases which were spread over 1980-81. Also, other imports would increase rapidly with the improvement in industrial production and the rise in investment, as well as in the interest of containing domestic price increases of essential items of mass consumption in critical shortages, and as unit prices of these imports continue to rise as a result of international inflation. The prospects on export front, on the other hand, remain subdued in the context of the continued recessionary economic conditions and protectionist tendencies in the industrial world. Further, partly as a result of lower investment income following continued pressure on the foreign exchange reserves and some softening of international interest rates, the net invisible receipts, the growth in which has been a source of balance of payments strength in the past few years, might decline. The external payments situation is thus expected to worsen further in the fiscal year 1981-82.

Indeed, the current trend of deterioration in the balance of payment is unlikely to be reversed during the next two years. Even on the assumption of no further major increase in the volume of oil imports, other imports, particularly of essential capital and intermediate goods, would expand substantially so as to sustain the overall investment programme of the Sixth Plan. This programme should not suffer on account of balance of payments difficulties, the long-term solution to which lies in higher investment and improved productivity in the economy. The need for utmost economy in consumption and in non-plan expenditure has to be seen in this perspective. While there is urgent need for greater research efforts in exploring alternative sources of energy and for curtailing imports of crude oil and petroleum products by increasing domestic production as well as by exercising restraint on total consumption, it is clear that these efforts will require time as well as very considerable investment before they can be fully effective.

At the same time, the climate for exports is not likely to be even reasonably favourable. Given the stance of economic policies in the industrial world, prospects for any marked improvement in the level of activity in these countries and hence for absorption of exports from the non-oil developing countries as a group appear to be weak, while international competition in these slowly growing markets would intensify, as a large number of countries with growing balance of payments deficits sought to increase their exchange earnings. With a rapid deterioration in the investment income account due to some drawal on the accumulated reserves and rising interest payments on external indebtedness incurred to meet the balance of payments deficits, the overall net invisible receipts would decline over the coming years. Any significant improvement in aid climate in the near future is also not to be realistically expected. Even on the assumption of only modest increases in international oil prices, financing — of a large order — from other sources would, therefore, be required to maintain imports at levels permitting the attainment of investment and growth targets of the Sixth Plan.

Thus, while substantial sustained efforts will have to be made to promote export growth, it would be necessary to explore commercial and other forms of external finance over a period to permit enduring changes to be brought about in the structure of production which alone would ensure a stable balance of payments adjustment and simultaneously sustain even a modest rate of economic growth. External financing in such forms would necessarily be more expensive to service than the usual external assistance. It is also not as if no uncertainty attaches to these other forms of external financing. In view of this, the process of adjustment would have to be as speedy as possible, as also within a positive framework to make it enduring.

This obviously calls for discipline in all areas of the economy. While higher production is needed to meet domestic requirements and to exploit fully export opportunities, attention has also to be paid on improvement in productivity in all its dimensions such as sound investment decisions quickly taken and implemented, fuller and more efficient use of capacity created, and conscious efforts towards cost reduction, with producers absorbing a part of unavoidable cost increases.

The decline in the rate of saving from the very high level reached a few years ago must also be reversed. It is only through sustained and mutually reinforcing efforts to increase productivity and savings that current balance of payments difficulties can be overcome on an enduring basis and consistent with at least moderately growing levels of *per capita* incomes. Both higher productivity and higher savings require an abatement of inflationary pressures and of inflationary expectations. This, in turn, entails not only appropriate supply management policies, including a judicious induction through imports of higher supplies of critical commodities in short supply, but also a containment of further additions to the present high level of liquidity in the economy, through an appropriate combination of fiscal and monetary policies. Recent trends in monetary and credit expansion leave no room for complacency in regard to the need for continued vigilance on the budgetary and credit fronts. What is required in the present very difficult phase of the Indian economy is thus a comprehensive approach in which supply and demand management are seen not as alternatives but as integral parts of a long-term strategy.

RITES & IRCON ACHIEVE HIGHER TURNOVER

Rail India Technical & Economic Services Limited (RITES) and Indian Railway Construction Company Limited (IRCON) have fared well during 1980-81 both in terms of profit and turnover. RITES achieved a turnover of Rs. 106 million in 1980-81 as compared to Rs. 87 million during the previous year, earning a net foreign exchange of Rs. 22.7 million, besides repatriation of about Rs. 20 million by the experts. The net profit of the Company also Increased from 24 million to Rs. 27 million.

IRCON has secured the prestigious contract in Iraq, of the value of Rs. 2,240 million, for the construction of a new railway line. The work-load of the company has increased to Rs. 693 million in 1980-81 from Rs. 342 million in 1979-80 while its turnover has increased ~~to~~ Rs. 95 million from Rs. 50 million in the previous year. The net profit increased to Rs. 4.5 million compared to Rs. 1.5 million in the previous year. This has enabled the Company to declare a dividend of 10 per cent on its paid-up share capital.

BGML MAKES PROFIT

The State-owned Bharat Gold Mines Limited, made a profit of Rs. 6.03 crores in 1980-81, the year of its centenary. This practically wiped out all the past accumulated losses of the Company. During 1979-80, it made a profit of Rs. 3.7 crores. With the intensive exploration for gold, as envisaged in the Sixth Plan, not only the future of Kolar Gold Mines but the gold mining in the country itself appears to be bright in spite of recent fall in the international price of gold.

BANK RESULTS*

Allahabad Bank Records Impressive Growth

BOTH in respect of deposit mobilisation and in regard to advances deployed in the priority sectors, Allahabad Bank has shown dynamism. The deposits of the Bank increased by Rs. 132 crores to reach Rs. 867 crores at the end of 1980. This works out to a growth rate of 18 per cent which is well above the national average growth rate for bank deposits. The bank's market share of deposits also rose from 2.1 per cent in 1976 to 2.4 per cent in 1980. During the year, the bank's advances rose by Rs. 85 crores to reach Rs. 492 crores. The priority sector advances, including export finance, rose from Rs. 134 crores to Rs. 178 crores, representing an increase of nearly 39 per cent. In cooperation with the Coffee Board, the bank has been advancing credit to coffee growers in Karnataka. The amount disbursed in 1980 was Rs. 4.65 lakhs. The bank was able to step up its DIR lending to Rs. 2.83 crores from Rs. 1.16 crores in 1979.

The bank's total income improved from Rs. 58.69 crores in 1979 to Rs. 75.85 crores in 1980. The total expenditure, which stood at Rs. 57.25 crores in 1979, rose to Rs. 74.33 crores in 1980. Despite a sharp increase in the wage bill, the bank has been able to improve its net profit from Rs. 1.44 crores in 1979 to Rs. 1.52 crores in 1980. At the end of 1980, the bank had 957 branches.

IOB Maintains Its High Deposit Growth Rate

THE global deposits of Indian Overseas Bank rose to Rs. 1,486 crores in 1980, showing a growth rate of nearly 29 per cent. Deposits in India showed a growth rate of 17.9 per cent, rising from Rs. 965 crores to Rs. 1,174 crores. The bank's market share of deposits moved up fron 2.94 per cent to 3 02 per cent. The Bank's global advances rose by 34 per cent, from Rs. 727 crores to Rs. 975 crores. Of this, advances in India stood at Rs. 702 crores. The bank's priority sector advances increased to Rs. 230.5 crores, from Rs. 180.4 crores, bringing the ratio of credit to priority sector to 34.6 per cent. Within the priority sector, agricultural advances amounted to Rs. 110 crores. The bank's DIR lending stood at Rs. 5.68 crores. exceeding the one per cent norm fixed for this category of deposits.

The bank achieved a 25 per cent growth in its pre-tax profit abroad. As the Bank has branches in two of the most important financial centres in the East—Hongkong and Singapore—where both potential and competition for business are large, IOB carved out its own share of business. As of the end of 1980, the commitment extended by the Bank in Eurocurrency amounted to over $ 165 million to borrowers in 20 countries—from South Korea to Venezuela. The Bank lead-managed two syndicated loans where Indian firms entered into joint ventures abroad. The Foreign Currency Banking Unit at Colombo was rated as one of the largest and most active of FCBUs operating in Katunayake Investment Promotion Zone, in terms of assets and volume of business. In Seoul, South Korea, the Bank recorded a growth of 87 per cent in deposits and 114 per cent in advances. The net profit of the bank showed an impressive rise from Rs. 3.99 crores in 1979 to Rs. 4.46 crores in 1980.

Grindlays Bank Stages Impressive Recovery

THE U.K.-based Grindlay's Bank, which has a significant presence in India, came out almost unscathed from the 92-day strike which lasted till February 4, 1980. Its deposits, which had dropped to Rs. 475 crores at the end of December 1979, staged a steady improvement in 1980 to reach Rs. 506 crores at the end of the year. The Bank's advances for purposes other than food procurement stood at Rs. 333 crores. In its familiar field of export finance, the bank's credit stood at Rs. 60 crores. The bank's income from interest and discount rose by Rs. 4.80 crores to Rs. 58.10 crores. After providing for taxation (Rs. 14.24 crores) the bank's net profit stood at Rs. 1.36 crores.

The Bank's Merchant Bunking Division placed more emphasis on diversification of services from the traditional ones. A major innovation was the introduction of advisory services on leasing operations which can provide a more attractive alternative to the traditional financing methods. Besides this, the division substantially improved its expertise in international finance and its capability to handle offshore business.

Union Bank Registers 19 p.c. Deposit Growth

THE deposits of Union Bank of India registered a growth of 19.2 per cent in 1980. From Rs. 1,206 crores in 1979, the bank's deposits increased to Rs. 1,437 crores at the end of 1980. While there has been a slow down in the growth of term deposits from 21.4 per cent to 18.1 per cent, current deposits grew by 13.5 per cent, compared to a growth of nearly 10 per cent, in 1979. The gross bank credit increased by Rs. 67 crores or 9.2 per cent to reach Rs. 795.92 crores by the end of 1980. Advances to the priority sector stood at Rs. 238 crores. Export credit amounted to Rs. 82 crores. The bank's advances under the DIR scheme amounted to Rs 7.84 crores, thus exceeding the stipulated ratio of one per cent.

During 1980, the bank entered the international arena for the first time by setting up a deposit-taking company at Hong Kong in equal participation with two other public sector banks viz,, Bank of Baroda and Indian Bank. The IBU International Finance Ltd., as the company is known, began its business operations on October 23, 1980. The bank's profit improved from Rs. 1.91 crores in 1979 to Rs. 2.20 crores in 1980.

---

* The annual reports of the banks reviewed here are received rather late. These are the last to be reviewed by us in 1981.

Mysore Cements Records Higher Turnover

THE sales of Mysore Cements Limited have shown a marked improvement during the year end June 30, 1981. From Rs. 13.34 crores in 1979-80, they have improved to Rs. 17.81 crores in 1980-81. However, the profit, after providing for depreciation, has come down from Rs. 47.97 lakhs to Rs. 36.55 lakhs in the previous year. The directors has recommended an equity dividend of 12.5 per cent.

Despite a 34-day strike, the irregular supply and poor quality of coal, production of cement in 1980-81 stood higher at 4.32 lakh tonnes. The Chairman, Mr. G.D. Birla, has observed in his annual statement that there has been sizable cost-escalation due to the hike in the power tariff, cost of coal and the railway freight, among other factors. This was cushioned, to some extent, by a switch-over to the manufacture of Pozzolana cement and the increase of Rs. 34.74 per tonne in retention price allowed from May 3, 1981. Work on the Damoh plant is in full swing and the plant will be commissioned soon.. The company has sought an import licence for getting modern equipment for its asbestos cement project.

AVB Shows Higher Sales, Profit

ACC-Vickers-Babcock Limited has improved its sales and profit during the year ended March 31, 1981. The company's sales have risen from Rs. 49.20 crores to Rs. 63.31 crores. Its pre-tax profit has increased from Rs. 6.93 crores to Rs. 8.03 crores. The after-tax profit, at Rs. 3 81 crores, are lower than that of the previous year (4.43 crores). Equity dividend has been maintained at Rs. 20 per share.

During the year, the company received the Government's approval for its collaboration agreement with Fiver-Cail Babcock of France for the manufacture of cement plants with capacities of 3,000 tonnes and above. It has also received the approval for its other collaboration deals, one with a U. S. firm and another with a British firm. The company's order book position stands at a healthy level of Rs. 234 crores. They include orders for the supply of boilers for some of the major power stations in the country.

Glaxo's Pre-Tax Profit Shows Decline

THE sales of Glaxo Laboratories (India) Limited during the year ended June 30, 1980 amounted to Rs. 93.85 crores, against Rs. 80.04 crores in the previous year. Despite the higher sales, the gross profit stood lower, at Rs. 9.54 crores, against Rs. 11.48 crores in 1979-80. The net profit, before taxation, was also lower, at Rs. 8 crores, against Rs. 10.28 crores in the previous year. In view of the lower tax liability, the after-tax profit stood higher, at Rs. 4.97 crores against Rs. 4 81 crores in 1979-80. The aggregate equity dividend is maintained at 16 per cent.

With the prices of a major part of the company's product range remaining virtually unchanged since 1977, the continuing inflation had a serious effect on all areas of the company's operations. The decline in profits and the sharper erosion in profitability has been brought about largely by the Drugs (Price Control) Order, 1979.

Shetty Investment in the Market

SHETTY Investment & Finance Ltd., which just entered the capital market with a public issue of 3,50,000 equity shares (of Rs. 10 each) expects a good response from the investors. Out of this, 50,000 equity shares have been reserved for allotment to the promoters, directors and their associates. The balance of 3,00,000 equity shares, worth Rs. 30 lakhs, is being offered to the public. The company is primarily engaged in providing hire purchase and leasing facilities of all kinds of plant and machinery, vehicles and other equipment. The company will intially be concentrating its activities in the four southern states. It has already concluded arrangements for leasing equipment worth over Rs. 75 lakhs. The company has been promoted by Mr. Ashok Kumar Shetty who, till recently, was the Managing Director of Vijaya Investment & Finance Ltd.

First Half Year is Good for Ashok Leyland

DURING the half-year ended June 27, 1981, Ashok Leyland Limited has shown higher sales and profit. During January-June 1981, the company's sales stood at Rs. 122.43 crores, against Rs. 100.21 crores during the corresponding period in the previous year. The profit (before depreciation, financial expenses and tax) was also higher at Rs. 12 86 crores against Rs. 9.04 crores during the first six months of 1980. While the gross profit for the half-year is significantly higher than for the corresponding period in 1980 (an increase of 42 per cent) the profit before tax reflects a growth of only 5 per cent due to substantial interest and depreciation charges.

Vehicle production at 6,885 for the first six months, compares favourably with 6,046 in the corresponding period last year—an increase of 14 per cent. With the improved outlook, the directors have approved the payment of an interim dividend of Rs. 0.40 per share (8 per cent) subject to tax. The assembly of vehicles at the new locations at Alwar and Bhandra is expected to commence in the first quarter of 1982.

SOUTHERN
ECONOMIST

November 1, 1981

CONTENTS

EDITORIALS 1
Whither Indian Banking?
Cement Policy Conundrums

CURRENT TOPICS 3
Disappointment at Cancun;
The Coming Mirage Deal;
Global Food Shortage

How to Reconcile Welfare with Poverty 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
James Tobin, the 1981 Winner of Nobel Prize in Economic Science
By A. Ramalingam

KARNATAKA: A SPECIAL SURVEY
Page 11 to 50

PROGRESS OF BANKING: 1980-81 51

PUBLIC SECTOR 54
Record Turnover and Profit by Indianoil

COMPANY NOTES 55
DCM; Gujarat Steel Tubes;
MISL; IDL Chemicals; AVO Cables;
TELCO; Blow Plast; Morarji Mills

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
This Issue Rs. 5

Whither Indian Banking?

WHAT does the Reserve Bank—the country's central banking institution—say in its latest report (see summary published elsewhere in this issue) about the working of the banking system? Not much, really, about the improvement in customer service, in profitability and in respect of bad debts. Since these are not the dominant factors which affect the trend, one way or another, in the short run, one is supposed to overlook these omissions that could not possibly be avoided in an official document which does nothing more than provide a drab narrative. The report for 1980-81, covering the period, July to June, highlights the fact that the deposit-growth, which decelerated somewhat during the first half of the year, picked up in the second half and the growth-rate for the whole year, at 20.4 per cent, was higher than the previous year's growth rate of 16.4 per cent.

While part of this increase is admittedly due to the higher rate of growth in real national income, it cannot be denied, as the RBI report readily concedes, that the higher deposit growth is also due to sizable money creation. Two factors which should not escape notice are (a) the sharp increase in the Reserve Bank's net claims on the Government and (b) the equally sizable rise in the net bank credit to the Government. This should be viewed in the light of the budget deficits that the Centre incurred and the size of the gross market loans raised in the past three years. The deficits of the three years, 1979-80 to 1981-82, easily exceed Rs. 6,000 crores while the gross loans raised during these three years add up to over Rs. 8,000 crores. Small wonder that, both the rate of growth in money supply and the rate of inflation have stayed at 18 per cent in 1980-81. The marginal fall in the saving rate and the apparent shift from demand deposits to time deposits indicate the extent to which inflation has qualitatively affected the composition of bank deposits.

It is not surprising, therefore, that the main thrust of the credit policy, over the years, has been towards containing inflation but it is evident that, since the fountain-head of inflation is also the architect of the credit policy, the monetary authority has failed to achieve its objective of reducing the growth rate of money supply through credit restraints alone. On the other hand, cynics may aver that the monetary authority may well be using the instruments of credit control for helping the Government to raise funds through the banking system *ad lib* while at the same time creating the illusion that these instruments are being used to mop up funds in order to dampen inflation. Does the monetary authority need to be told that creation of money (for financing the Government's deficits) on the one hand and mopping it up on the other is an exercise in futility?

Be that as it may, those who understand the limitations under which the monetary authority functions will not be too harsh in criticising the present two-pronged policy which renders credit costly through a structure of higher interest rates and makes it scarce by stepping up the cash reserve and statutory liquidity ratio. The present position is that SLR stands at 35 per cent while CRR stands at 8 per cent. Even granting that there will be sizable accretions to deposits during the "busy" season which has just commenced, the new ratio stipulations will not leave enough in the hands of the banks for coping with the expected surge in the demand for credit. As for the hike in the interest rates, together with the rise in the bank rate from 9 to 10 per cent early this year, its favourable impact on the savers will be negligible since the inflation rate remains higher than the maximum deposit rate (10 per cent) offered on term deposits.

At the borrowing end, the effective rate, outside the favoured sectors, is around 20 per cent which is far in excess of the average profitability of our industries. In other words, the commercial banks, instead of remaining lenders of the first resort, are viewed by the traditional borrowers as the lenders of the last resort—an appellation which is generally pinned on the money lenders. Small wonder that companies which enjoy a good standing in the market have been raising money through public deposits for meeting their working capital requirements. For the depositing public, the risk element remains a major deterrent but the lure of a higher interest rate often becomes irresistable. The net loser is the banking industry.

Cement Policy Conundrums

INDIA'S reported decision to withdraw its $260-million loan application to IDA for financing some of its cement projects is warranted by a change of the cement pricing policy hinted at by IDA. Cement, like steel, is a controlled commodity and its price is regulated by the Government. The cement industry is ailing for well over a decade now and its problems are due to several factors of which price control is one. The industry's poor profitability is also due to the vagaries in power supply, the poor quality and irregular supplies of coal and also transport bottlenecks. As a result of these constraints, capacity utilisation has come down in the recent years.

Considering that (a) the country faces an acute shortage of cement and (b) the cement industry needs an injection of fresh capital to the tune of Rs. 2,000 crores for augementing the capacity to the desired level, the Government's reported decision to withdraw its loan proposal from IDA is to be regretted. Whether IDA has put forward any extraordinary terms at all, one is not sure. In the past, India had no difficulty in securing IDA loans for a wide variety of projects and policy issues never came in the way of the sanctioning of these loans. As for the suggestion that India should lift price control on cement, the Government seems to be justified in not favouring it for the simple reason that, in a regime of shortage, the lifting of price control will place the consumer at the mercy of the profiteer although in the longer run, it may cause more investible funds to flow into the industry.

In other words, there is no short-term remedy to capacity-constraints. The gap between the demand for and supply of cement is widening—it was nearly 6 million tonnes in 1979 when production stood at 18.3 million tonnes — and the immediate task is to produce more through better capacity-utilisation. Considering that this was around 70 per cent in 1980, it should be possible to produce at least 25 per cent more by removing the hurdles that stand in the way of working the cement plants more efficiently.

It is also up to the high power committee, which is presently reviewing the pricing system with a view to making it more responsive to the needs of the producers, to recommend a more liberal pricing formula. Successive increases in retention prices — in August 1974, in October 1975, in August 1980 and in May 1981 — have, to some extent, cushioned the impact of cost-escalation but a more liberal pricing formula is justified in view of (1) the large depletion of foreign exchange on cement imports and (2) the malpractices that the present shortages have spawned.

In the longer perspective, the expected increase in cement capacity from 24.3 million tonnes in 1979-80 to 43 million tonnes in 1984-85 in the Sixth Plan should result in an easing of the supply position. An interesting aspect of the cement programme is that the planners propose to set up 8 plants of the capacity of one million tonnes each, in order to secure the benefits of economies of scale, side by side with setting up a large number of mini cement plants. The commissioning of these plants on schedule hinges largely on how the capital needed for putting them up is raised.

If the Government chooses not to avail of the soft loans of IDA for reasons of policy, it will have to find alternative sources since the indigenous capacity for manufacturing cement-making machinery may not be wholly adequate for carrying out all the Sixth Plan schemes. There are then the problems of spotting limestone deposits and other raw materials needed for making cement. These problems are sought to be overcome by (a) split location (clinkerisation in one place and grinding units elsewhere) and (b) the utilisation of slag available at the steel plants. While the increase in the public sector's share from 15 per cent to 22 per cent in cement production, proposed in the Sixth Plan, is heartening, the poor performance of the existing public sector steel plants do not give room for optimism.

CURRENT TOPICS

Cancun Brings More Disappointment

THE two-day dialogue between the North and the South, which concluded at the Mexican city of Cancun last week, proved to be a disappointment both to the nations of the Third World and to those rich nations which championed their cause. However, the temptation to hold up America as the arch-villain needs to be resisted, if only for the generally acknowledged fact that its post-war record as the aid giver remains unbeaten so far. Since, paradoxically, it was the Reagan leadership of the West which threw a damper on all liberal proposals to help the poorer nations, one can as well list the plus points of the continuing American aid policy before commenting on the stand that the U.S. took at the Cancun "summit".

Mr. Reagan himself listed these plus-points in his opening statement at Cancun. The United States has provided $ 57 billion to the developing countries in the past decade both directly and through multilateral financial institutions. Each year, the U.S. provided more food assistance to LDCs than all the other nations put together. Official development assistance given by U.S A. last year was higher than that of any other nation. The U. S. absorbs about one-half of all manufactured goods that non-OPEC developing countries export to the industrialised world, even though the U.S. market is only one third of the total world market. Last year alone, the U.S. imported $ 60 billion worth of goods from the non-OPEC developing countries. This is more than twice the ODA from all OECD countries put together. This goes to show that even a stingy America remains a bigger benefactor to the developing world than the most liberal among the other aid givers.

We list these factors, not in defence of the present aid policy of the United States but to keep the issue in perspective. Any global attack on poverty will not succeed so long as the United States keeps out of the aid programme. It is an awareness of this fact that compelled the other richer nations to go along with the U.S. instead of treating her as an outcast. If, inspite of the disappointing outcome of the Cancun summit, some of the leaders of the Third World took a hopeful view, it is because (a) the meeting agreed on a resumption of the North-South dialogue in the forum of the United Nations; (b) there was agreement also on helping the developing nations to tackle the energy cruch and (c) the need to launch a time-bound programme to eradicate hunger in the poorest countries was readily recognised. This is an indication that the North-South dialogue at Cancun proceeded along constructive lines instead of degenerating into a confrontation. The limitations of the Cancun meeting were that it took place without a formal agenda and agreed positions were not set out in an official statement at its conclusion.

Issues affecting the Third World were ably put forward by India's leader, Mrs. Indira Gandhi. They included the need to (a) stabilise commodity prices through the activisation of the UNCTAD-sponsored Common Fund; (b) enlarge the scope of the generalised scheme of preferences in order to assist the export of manufactured goods from LDCs and (c) speed up the negotiations for renewing the multifibre agreement. Mrs. Gandhi also pin-pointed the need to step up official aid in conformity with the ODA target laid down earlier and to augment the resources of multilateral agencies like IMF, World Bank and IDA. While some of the industrialised nations, like France, took a generally helpful view of the Third World's immediate needs, the United States set its face against any proposal which involved a massive — and unrequited—transfer of resources from the developed countries to the nations of the non-OPEC Third World.

The immediate problem facing these nations is that of coping with unmanageable balance of payments deficits created largely by trade gaps resulting from the rising oil prices on the one hand and the decline in the prices of primary products on the other. One way of satisfactorily dealing with this crisis is to increase the resources at the disposal of IMF in order to enable the Fund to provide the necessary BOP support to the LDCs. The Reagan administration is not keen either on strengthening the resources of IMF or on making its lending terms more flexible. Again, it has adopted the same stance in regard to (1) setting up an energy affiliate of the World Bank and (2) replenishment of the resources of IDA — the World Bank's soft loan window. The Reaganites expect the countries of the Third World to roll the red carpet for private capital which, in their view, will generate the resources needed for development. Knowing, as one does, the record of multinationals in the Third World countries, one cannot be very sanguine that Reaganomics will provide the right answer to the problems faced by LDCs. The frugality and the do-it-yourself philosophy preached by President Reagan are in depressing contrast to the squandermania indulged in by his Government in exporting arms to some of the Third World countries.

British Jaguar Out : French Mirage In ?

BEFORE the next issue of this journal is out, probably, India's Prime Minister, Mrs. Indira Gandhi, will have signed a $ 3.3 billion deal for the purchase of the fururistic Mirage-2000 aircraft and a few other items in the shopping list of our defence forces. In terms of the outlay involved, the proposed Mirage-2000 deal will be at least three times the size of the Rs. 1,300 crore (was it Rs. 1,500 crores?) Jaguar deal that had been entered into, with Britain, in April 1979. In the case of armament purchases for future delivery, it is always difficult to give even a rough estimate of the figures of cost since final payment is made on the basis of the cost-escalation that may have taken place, in the mean time. The number talked about is 150 of these planes — 60 to be acquired next year, off the shelf, and the rest, namely 90, to be manufactured at HAL, Bangalore, under licence. At Rs. 25 crores each, the cost adds up to Rs. 3,750 crores but since the price-increase that will take place between now and the delivery of the aircraft will be added to the final cost, the price per plane, for the 60 aircraft to be purchased from France will be closer to Rs. 30 crores. As for the remaining 90 aircraft which are likely to be manufactured within the country, the cost could be higher. Dr. Subramaniam Swamy, an opposition leader and outspoken critic of the Government, places the final cost of the Mirage deal at Rs. 7,500 crores.

It goes without saying that the third part of the Jaguar deal, that is, the part pertaining to its manufacture under licence at HAL, will be scrapped since the country cannot afford to build two types of aircraft serving the same purpose, viz., the interceptor-strike role. It may be recalled that, under the Jaguar deal, India was to buy 40 Jaguars straightaway, assemble some 40 of them from imported components and manufacture the rest (80 of them) at HAL under licence.

It has been the general complaint against western suppliers of military hardware that they sell off to the Third World only those products that are rendered obsolete as a result of technological advances. The Jaguar deal was criticised mainly on this ground. The critics pointed out that Britain was selling this aircraft because RAF had no use for it. It did not fit in with the NATO strategy either. But, obsolescence is a relative term. At the time the Jaguar contract was concluded, the twin-engined supersonic Jaguar was good enough for India's strategic requirements. And strategic requirements keep escalating, depending on what is in the possession of the neighbour. In other words, the Jaguar was considered superior to what Pakistan had at that time — largely squadrons of MIG-19s and Mirages of an earlier vintage. What caused re-thinking among our defence strategists — and politicians interested in defence contracts—is the decision of the Reagan Administration to sell to Pakistan F-16 planes worth over $ 1.1 billion.

Since the F-16 aircraft is considered superior to either the Jaguar or the MIG-23 which IAF has in squadron strength, a case has been built up for the purchase of Mirage-2000 which is being developed by the French firm of Marcel Dassault. One is not however sure whether the new version of the Mirage series, being developed by Dassault, can be a match for F-16. If critics are to be believed, Mirage-2000 seems to suffer from two defects : Its missile is not properly integrated with the radar fitted into the plane and secondly, having only one engine — against two which Jaguar has — it is vulnerable to bird hits. Planes with two engines can land in tact, even after a bird hit. From the number of planes that IAF has lost as a result of bird hits, it looks as if this is a peculiarly Indian problem. And it is all the more reason why our defence planners should also take this factor into account while acquiring new aircraft. Another minus point about Mirage-2000 is that its engine — M-53 — is of World War II vintage and is well on the way to getting obsolete. Besides, it is also pointed out by critics that Mirage-2000 is vulnerable to detection by virtue of its infra-red emission and that the electronics fitted into it is not suitable for a low-level attack. The manufacturers of Mirage-2000 can well retort that since the aircraft is still being developed, these "bugs" can be removed before the plane is actually built.

It has also been argued by aviation experts — or those in the pay of aircraft manufacturers — that India should have acquired a few more squadrons of MIG-23s during the next few years and, in the meantime, should have gone in for a superior aircraft like say the Tornado which, with its twin-engine (RB-119) and its advanced missile and radar systems, would have proved to be a source of strength to our Air Force in the eighties and the nineties. It is not known whether the Defence Ministry has exhausted the possibility of acquiring the Tornado—jointly developed by Britain, West Germany and Italy—before plumping for Mirage-2000.

Through all this aircraft-swapping, what stands out is the fact that HAL, which started off well as an aircraft manufacturer after the Second World War, has been reduced to the status of (mostly) an assembler of aircraft. It has been an unedifying story of bungling among IAF's top brass matched only by the pigheadedness of our politicians. The manner in which the designing, development and the manufacture of HF-24 was handled by the Government is too well known to need any repetition. Designing talent is there, but it is not properly tapped because of the prejudice that the IAF trendsetters nourish about things produced indigenously. One should not be so flippant as to suggest that the development of indigenous aircraft will deprive these top people of the opportunity to visit foreign countries often on purchase missions but the fact remains that in aircraft designing and development, at any rate, the Government's neglect sticks out like a sore thumb.

Global Food Shortage : Need for Action

ON the occasion of the World Food Day, one's attention turns to the food shortage—and even famine conditions—in many parts of the world. At the North-South "summit" held at Cancun, there was consensus on the need to launch a long-term programme to eradicate hunger by 2000 AD when the world will have 2000 million more mouths to feed, than at present. It is difficult to provide any reliable picture of global food demand and supply in view of the sharp changes in weather conditions and consequent year-to-year fluctuations in foodgrains production. Certain broad trends are however discernible. At present, the number of the hungry and under-nourished people in the world is estimated by the FAO Executive Director at 500 million and by the World Bank at close to 800 million. The accuracy of these figures is open to dispute—they generally contain a sizable margin of error—but what cannot be denied is the fact that the food situation in many countries in the Third World remains grave.

The worst affected are the countries of Africa—particularly those south of the Sahara desert. Lacking as they do the wherewithal to import food, they rely on food aid from the richer nations. In 1980 81, their food needs are estimated to have risen by 45 per cent to a level of 6.5 million tonnes. The southward drift of Sahara desert, coupled with a change in the food habits of the people of the Sahelian States, from maize to imported wheat, has increased the vulnerability of these states. In Asia, the situation is not as desperate as in Africa but drought and unsettled political conditions in several countries have aggravated the food shortage. China, which is generally self-sufficient in food, is facing shortage in some of its drought-hit provinces. Cambodia, once a rice exporter, has yet to recover from the ravages of the Pol Pot regime. Vietnam too is short of its staple food—rice. India, which used to import sizable quantities of food grains in the sixties, has achieved self-sufficiency but paradoxically, large sections of the country's population suffer from hunger and malnutrition. Crop yields in India remain low, except in the states where the "green revolution" has made an impact. Yet, the outlook for the eighties is hopeful since it is possible to increase crop yields through a spread of irrigation facilities and a better supply of modern inputs.

Russia, which was traditionally surplus in foodgrains, has turned a net importer of grains since 1975. Because of adverse weather conditions, the Russians have not been able to achieve their planned target of 235 million tonnes for 1980. Their imports—largely from the United States and Argentina—were of the order of 35 million tonnes in 1980-81. Russia grows more than enough for direct consumption—estimated at 45 million tonnes a year. The bulk of its grain production and imports is used as animal feed. Thus, the foodgrains shortage experienced by U.S.S.R. is not strictly comparable with the shortages experienced by most developing countries where only a negligible part of the foodgrains produced is used as animal feed.

That the food shortage in scores of countries in the world should be met by just four food surplus countries, namely, the United States, Canada, Argentina and Australia, is an unfavourable reflection on the global food situation. While these surplus countries can be expected to largely cover the deficits of the food importing nations, the question of financing the food-grain imports of the Third World—expected to rise from an estimated 95 million tonnes in 1980-81 to about 145 million tonnes by 1990—remains to be solved. India's experience in the sixties, when she imported massive quantities of American grains under PL-480, should serve as a warning against dependence on assured supplies from abroad. Such imports tend to take away the incentive to grow more food. Be that as it may, while stepping up production in the food deficit countries should be a major ingredient of any global strategy, the need to bring about changes in food habits is no less urgent. The supply-demand position can be kept in balance if (a) the meat-eating countries of the "North" can reduce the quantity used for animal feed and (b) the developing countries of the "South" supplement their cereal consumption with fish and other marine products.

How to Reconcile Welfare with Poverty

By **K. N. S.**

THE poor countries of the world should thank Mr. Ronald Reagan, U. S. President, for bluntly telling them to be self-reliant — to pull themselves up by their own bootstraps. I am not alluding to the Cancun meeting of the representatives of the rich and the poor nations, which concluded last week. Ever since Mr. Reagan got elected to the U. S. presidency, I have been carefully reading his down-to-earth pronouncements. I have been trying to understand his world-view. His refrain, if I understand him correctly, is that the poverty of the Third World cannot be solved merely by a transfer of real resources from the rich countries to the poor countries. His philosophy of self-help is summed up in that fish analogy: "Give the hungry man a fish and he will be hungry again tomorrow; teach him fishing, he will never be hungry again".

On this, I do not wish to enter a caveat with the American President. My own view is that simplistic solutions to complicated global problems have not been of much help. From the position of the leader of the world's richest nation, I would not have probably uttered these homilies. To the extent that his thinking is based on an erroneous conception of how the world evolved since the industrial revolution and since the days of colonisation, one cannot take his homilies seriously. But, as I said in the very first sentence of this piece, the Third World, that is to say, the Third World minus the OPEC, should be thankful to President Reagan for shaking its leaders out of their complacency. They should now address themselves to the paramount question: How to eradicate world poverty without necessarily expecting a massive transfer of real resources from the rich countries?

In a sense, this is a hypothetical challenge since there will be international cooperation — Reagan or no Reagan. The Third World countries do not have to experiment —work out their ideas of self-help —in a closed, hermetically-sealed system. With all my distrust of Reagonomics, I do not, for a moment, advocate an isolationist regime of the kind tried by Pol Pot in Kampuchea. But Mr. Reagan's appeal for self-help should trigger new thinking among the developing countries which have been unsuccessfully coping with the vicious circle of poverty, unemployment, overpopulation, energy crisis and so on. This probably calls for an unlearning of modern economics, with all its theoretical trappings.

What the poor nations should do in order to "stabilise" poverty at a tolerable level and to prevent their falling apart, in the absence of (a) sizable aid on reasonable terms and (b) trading opportunities for exporting their goods under favourable conditions is the question to which we should address ourselves. This calls for the evolution of a development philosophy which shifts the emphasis from the trappings of material acquisitions to human well-being in its pure, elemental sense. Already, some economists, with the help of tools like the Physical Quality of Life Index (PQLI), have discovered that nations (or regions) with a low *per capita* GNP can acquire a high PQLI—a composite index of welfare based on life expectancy, literacy rate and infant mortality rate. For instance, Sri Lanka, whose *per capita* GNP is less than $ 200, has a PQLI of 82 which is close to that of the PQLI of high income countries (92). In the other Third World countries, it ranges from 40 to 68. Nearer home, in the State of Kerala, the PQLI is close to that of Sri Lanka—a fact which goes to show that while Kerala is more backward than most other Indian states, its people are heathier—and, may be, happier—than their fellow-Indians in other states.

Faced with grim choices—and with their back to the wall—what the poor nations can do is to reorder their priorities in such a way that through maximising the use of the locally-available resources, and by tapping the know-how that will be available, with no strings attached, they can achieve a level of economic well-being which harmonises with their own resource—endowment : switch over to energy-saving methods of production; less reliance on diminishing sources like fossil fuels; turning to an educational system having vocational bias so that every citizen can acquire the skill needed to produce something that is useful : less emphasis on gadgets which do not necessarily raise one's standard of living; adopting a public health system which combines the best in the indigenous and modern systems of medicine; breast-feeding of children instead of rearing them on manufactured infant foods; weaning the people away from alcohol without necessarily clamping prohibition; discouraging tobacco-growing and the manufacture of *beedi* and cigarattes; change in food habits with a view to reducing the protein deficiency; making ostentatious living a social taboo and a social disgrace; total elimination of the five-star culture; according the top-most priority to the provision of minimum needs like clean drinking water, supply of electricity to all rural homes through better use of the country's hydel potential, building houses for every one and so on.

A switch-over to this model, in my view, will reduce, if not eliminate, a poor country's dependence on the rich nations for aid. No nation, I agree, is an island unto itself. But the concept of interdependence gains validity only if the countries which have reached the stage of affluence show a readiness to share their material prosperity with those who, for historical reasons, are less favourably placed. A therapeutic dose of self reliance is good for the rich and the poor nations alike.

Glass House Gossip

BANGALORE has all the status symbols that the metropolitan cities of the country enjoy—or suffer, if you like—but television is not one of them. It is also coming. Never mind the housing shortage with its concomitant of soaring rents, the proliferating slums, the overflowing garbage bins, the over-strained transport system, the not-so reliable water and power supply, the poor state of the roads, the growing crime-rate and the telephone that seldom rings or rings only with the wrong caller at the other end, Bangalore is going to have the ultimate in status symbol—the television.

Come November and you will find antennas sprouting in the most unlikely places. After all, it is the TV antenna that has greater snob value than the real thing. Whether the "idiot box" will make my fellow-Bangaloreans feel better I am not sure. At the moment, they must be feeling miserable, trying to keep up with the Joneses. All the major TV manufacturers in the country have invaded Bangalore to exploit a virgin market. And with a such a lot of them converging on the city, Bangalore will soon lose whatever is left of her virginity. So be it. Joking aside, the manufacturers — and their distributors — know that Bangalore is a huge market. Thirty lakhs of people. There are scores of countries whose population is smaller than that of Bangalore. Even if one-tenth of this population goes in for the TV sets, one can be sanguine that three lakh television sets will be lapped up before the first week of November or before the end of the year. Even granting that most buyers go in for sets in the price-range of say 2,500 to 3,500, some Rs. 80 to Rs. 90 crores will have passed into the hands of the television dealers and, through them, to the manufacturers. That, I know, is an over-optimistic estimate, but I am sure TV will catch on, sooner or later.

Be that as it may, the television is going to provide some sort of a diversion to the middle-class women who used to spend much of their time gossiping across the fences. At least till the novelty wears out, they will sit glued to their chairs, divans, carpets or just plebian mats to watch things that are dished out on the TV screen. The economic impact of the coming of TV can well be guessed. Since hire-purchase facility will not be available on the required scale, most middle class homes will acquire TV with borrowed money. As to whether they will be better off acquiring the new gadget, I can only quote Frances Cairncross (*The Guardian*, September 6) who observed: "The poor may be just as likely as the rich to have a television in their front room; but they are much more likely to lose their babies, their teeth, their health and their lives. And that, I suppose, is what the standard of living ought realy to be about." Surely, neither TV nor the fridge nor any of the scores of kitchen gadgets to which the modern housewife is inured to, enters the Physical Quality of Life Index — PQLI for short. I honestly believe that people can be happier without acquiring any of these gadgets but, as I said a moment earlier, keeping up with the Joneses is a never-ending struggle.

□ □ □

READING a recent issue of *New Statesman* (September 8) I stumbled on a description of Edinburgh, the Capital of Scotland, by NS diarist, Francis Wheen who was there to attend the Edinburgh Festival. Mr. Wheen wrote :

> Outsiders almost always fall in love with Edinburgh, yet many of the natives think of little else but how to get out of the place. It's dead outside the festival, they tell you; three weeks of frantic activity and then 49 of suicidal gloom. On the face of it this seems preposterous. There are plenty of pubs, theatres and other gathering places (with civilised licensing laws, too), and the city is small enough for one to be able to stroll over to visit one's friends at a moment's notice. Moreover it looks beautiful in all weathers and from all angles, with one of the last unblemished skylines in Britain. London, by contrast, only looks even half-way decent if you stand on Waterloo Bridge at night and put your hand over your left eye—and even then it hardly takes your breath away.

It is nearly nine years since I visited Britain—December 1972 to be precise—and the visit included a stay in Edinburgh for two days. There can be no two opinions over the fact that Edinburgh is the kind of town one can easily fall in love with. I was among the three Indians who were taken round the country (courtesy Foreign and Commonwealth Office) and the stay in Edinburgh, though brief, was exceedingly pleasant. We were put up at the Caledonian Hotel which has historic associations — I was told the Bevans spent their honeymoon staying there—the hotel is right on the Princes Street which overlooked the famous Edinburgh castle. If I make another visit to Britain, I will not forget to include Edinburgh in my itinerary.

□ □ □

I AM somewhat amused at the preference our young men show for working girls when they have to choose their life's companions. Frankly, marrying a working girl can be a pain in the neck. Incidentally, in my case, the question did not arise at all. I married a girl who didn't mind working so long as it is her own office. And I created one for her.

I have all my sympathies for working girls—and the youngsters who marry them. If they — the working girls and the working boys — think that it does not diminish their domestic bliss, who am I to object to marriages of love and convenience? Working girls bring in money and problems. Grab the money and close your eyes to the problems! For middle class Indian girls, that is one way of avoiding the payment of a hefty dowry. If the girl happens to have a job, the boys do not insist on a dowry. I am not so short-sighted as to overlook this advantage but I would like to warn both the boys and the girls of the harrassment to which girls are some times subjected to, in their places of work. In Britain, some of the trade unions have taken up the issue of "sexual harrassment", largely from the feminist angle. Recently I read an article in *New Statesman* (September 18) on the subject, by Annette Gartland in which she gives some instances of sexual harrassment. To quote the author:

> He put his hand up her skirt when she was behind the counter serving customers; he called her into a room, locked the door and tried to grab her, literally chasing her around a table; he offered perks if she would sleep with him and asked her to appear in a blue movie. When she rejected his advances, he gave her less interesting work to do.

Bosses are bosses everywhere and the situation in India is not wholly different. But there are girls and girls. Generally speaking, those who use sex for career advancement probably out-number those who complain of "sexual harrassment." There is, for example, the celebrated case of the attractive woman who was elevated to a top post in a well-known U. S. corporation because the boss was on friendly terms with her. In India, one often hears of complaints about girls superseding boys in the matter of promotion by the very fact of their being girls. I would call this "sexual harrassment in reverse." I say this just to put the issue in perspective —certainly not to take up cudgets against the weaker sex. One has to concede that career girls enjoy a certain liberty which goes with the pay packet that one brings home. As to the prospective bridegrooms who prefer working girls, I can only say: good luck and all the best.

□ □ □

I AM not at all surprised at the fall of the Nayanar Ministry in Kerala. Eight months ago, when I was holidaying in Kerala, I could see a definite swing in popular opinion against CPI (M) — the major partner in the Left Democratic Front. Their growing unpopularity, I could gather, was due to (a) excessive interference by party men in the administration (b) the one-sided manner in which the Chief Minister handled the law and order problems and (c) the increasing corruption. I do not know if the imposition of the President's rule will lead to elections, as demanded by Mr. E. M. S. Namboodiripad, or will give the political parties in the state time to re-group and form a viable ministry of the United Democratic Front. Since the state Assembly is in suspended animation, technically, it is possible to usher in a new Ministry without going through elections.

I quite see why Mr. Namboodiripad favours elections. The Marxists, whose popularity is seriously eroded, except among the organised labour, do not see any prospect of their being able to put together a stable ministry.

The Left Democratic Front has ceased to be a front, with two of its constituents — Congress (S) and Kerala Congress (M) walking out of it. A unique, and I may add disquieting, feature of Kerala politics is that most political parties are vertically split, not just into two factions but into three or four factions. Since sharing power offers an irresistable temptation to the parties in the Opposition, I do not rule out the chances of the two Congresses, namely, Congress (S) and Congress (I) coming together at the state level. Together with the other "democratic"-minded groups, they should be able to muster a majority provided the Muslim League factions too join the anti-Communist alliance. Such a grouping of political parties, though opportunistic, has a fair chance of providing a stable Goverment but the Marxists, who are well entrenched Kerala, can make things difficult for any Government to function in that strife-torn state. With most trade unions on their side, they will be in a position to paralyse life and bring the administration to a stand-still.

May be, I am exaggerating the difficulties in the way of forming a non-communist Government. For one thing, the dominant castes and communities like the Nairs and the Christians are generally opposed to the Communists. For another, any political alliance which has the support of New Delhi on its side, has a fair chance of staying in power. Now that the game of musical chairs is on, I enjoy watching it instead of attempting far-fetched permutations and combinations.

— **Plebeian**

James Tobin, the 1981 Winner of Nobel Prize: His Contribution to Economic Science

By **A. Ramalingam** [*]

Quite deservedly, most Nobel awards in economics have gone to American economists. This year too, the Swedish Academy has awarded the coveted prize to the distinguished Yale economist, Prof. James Tobin. The Nobel award to Prof. Tobin acquires added significance in view of his known antipathy towards Reaganomics. In this essay, the author succinctly summarises Prof. Tobin's contribution in the field of economics and makes his own assessment of the 1981 Nobel laureate.

PROFESSOR James Tobin — one of the world's most eminent economic scientists, Sterling Professor of Economics at Yale, Keyesian eclectic, bitter critic of Monetarism and Reagonamics, member of President Kennedy's first Council of Economic Advisers in 1961-62, President of the Econometric Society in 1956 and that of the American Economic Association in 1971—was awarded the Nobel Memorial Prize in Economics ($ 200,000/ Rs. 18 lakhs) on 13th October 1981, by the Swedish Academy of Sciences, for "his analysis of Financial Markets and their relations to expenditure decisions, employment, production and prices". Dr. Tobin's technical contributions to the theory of Financial Markets, to which the Swedish Academy of Sciences has referred in the Nobel Citation, are edited along with D. D. Hester and published in three volumes: 1) Risk Aversion and Portfolio Choice 2) Studies of Portfolio Behaviour and 3) Financial Markets and Economic Activity. The 63–year–old Yale economist has been honoured for his analysis of Financial Markets and their impact on how businesses and families in a capitalist system spend and save money.

Tobin's models have examined the role of financial intermediaries in the process of economic growth. The "portfolio effect" of growth on the propensity to save was emphasized by Tobin and related to the monetary system's role as a financial intermediary in the accumulation of physical capital. Tobin's work has long been considered as a break-through in analysing the relationship between "financial" markets (for example, those for stocks and bonds) and "real" markets, (for example, those for real estate, factory machinery and consumer goods). Tobin's treatment of Financial Markets has helped in the construction of large scale macroeconometric models. Money and finance are important in the development process. Tobin considers money to be an alternative asset or a partial substitute for real capital for the wealth—portfolio holders. Since Money and Capital are competing assets in satisfying the public's desire for wealth, portfolio balance requires that their respective rates of return be equal. Since the rate of return on capital (marginal productivity) has to adjust to the rate of return on money, portfolio balance serves as an eqilibrating mechanism. Tobin treats the portfolio balance as the mechanism to explain a "non-neutrality of money in the long run". Tobin, a meticulous mathematician, has played a leading role in the establishment of the "neo-classical synthesis" of Keynesian thought.

Prof. Tobin, born on March 5, 1918, in Champaign, Illinois, took his M.A., and Ph.D. degrees in Economics from Harvard University. After spending a few years at Harvard, he has been teaching at Yale University. While he was the Director of the Cowles Foundation for Economic Research during 1955-61 and 1964-65, he nursed and developed the Yale School of Thought. Tobin insists that his own economics department knows how to produce "plumbers" — that is, competent economic technicians—but it does not know how to produce, "philosopher - kings". He is doubtful, in any case, about the substantive value of the philosopher-kings. Professor Robert Solow of MIT suggests that it would be better for economists to aspire to be competent technicians "like dentists", as Keynes once put it. Prof. Tobin is rearing up a new generation of competent economic technicians to study "more and more about less and less".

Prof. Tobin's publications include National Economic Policy (1966), Essays in Economics Vol. I Macro Economics (1971) Chicago, Essays in Economics Vol. II consumption and Econometrics (1975), The New Economics, one decade older (1974). In addition to the leading scholarly works, Prof. Tobin has published numerous theoretical and statistical studies in learned Economic Journals like Review of Economic studies, Journal of Political Economy, Econometrica, American Economic Review etc., To put on record the popular articles of Tobin : "A Note on the Money Wage Problem", QJE, 55: 508-516, 1941; "Relative Income, Absolute Income, and Saving", in Money,

---

[*] Mr. A. Ramalingam is Asst. Professor of Economics, A.V.C. College, Mayuram, Mannampandal-609 305.

Trade and Economic Growth, Essays in Honour of John Henry Williams, New York, 1951; "A Dynamic Aggregate Model", JPE, 63 : 103-115, 1955; "Liquidity Preferences as Behaviour Towards Risk", RE Studs., 25 : 65-86, 1958; "Commercial Banks are Creators of Money" in D. Carson Ed., Banking and Monetary Studies, R. D. Irwin, 1963 ; "Notes on Optimal Monetary Growth", JPE 76 : 833-859, 1968; "Money and Economic Growth", Econometrica, 33 : 671-684, 1965 ; "Inflation and unemployment", AER, 62 : 1-18, 1972; and so on. Tobin's writings represented a continuation and culmination of many of Keynes' Monetary doctrines. Karl Brunner, a critic of Tobin, maintains that by applying economic analysis to financial markets and to the analysis of wealth positions or by adopting a theory of the firm approach to financial institutions, the Yale Professor has contributed to the progress of contemporary monetary analysis. Working on Keynes' speculative motive, James Tobin developed a portfolio balance approach.

Tobin introduded uncertainty aspect (Wealth holder is more uncertain about the future rate of interest) in his analaysis. Tobin pointed out that the individual prefers a more diversified portfolio of money as well as bonds. (To Keynes' theory, an individual would hold his wealth in only one form, i.e., in money or bonds depending upon his expectation of future rate of interest. Tobin provides a micro foundation to the individual's demand for money and other financial assets. He gives explicit recognition to the existence of various financial markets and links the structure of interest rates which is determined in financial markets to "real" dimensions like production and employment. He attempts to remove the traditional dichotomy between the monetary and the real sides of the economy.

Prof. Tobin was the principal exponent of the modern eclectic postiton in Monetary theory, viz., money matters". The eclectic position of post-Keynesianism of the Tobin-Modigliani type that "money does matter" is incompatible with monetarism of Friedman-Meltzer-Brunner type that "money alone matters". The ultra - Keynesianism of Hicks-Harrod-Meade-Lange type demonstrates the proposition that "money does not matter". The unanimous conclusion of the distinguished group of British academics and men of finance—the Radecliffe committee—was that "money never matters", which also established the falsity of Freidman's proposition. Paul A. Samuelson, Institute Professor, MIT, remarks : "Nowhere is the oscillating pendulum of opinion more marked in the field of economics than in the area of money." Actually there is no quarrel among leading modern macro-economic economists on the correct logical conclusion of Tobin that "money does matter".

Prof. Tobin of Yale and Prof. Modigliani of MIT agreed on the eclectic position that national income can be significantly affected by monetary as well as fiscal policy. Paul A. Samelson, MIT, Walter Heller, Chief Economic Adviser to Presidents Kennedy and Johnson, and Paul McCracken, Chairman of Nixon's Council of Economic Advisers believe in the potency of both tools of policy—monetary as well as fiscal. Prof. Tobin once rightly remarked: Proving that "money does not matter" is false only proves that "money does matter", Not that "money alone matters."

Dr. Tobin has long been involved in policy controversies. He is severely critical of monetarism and specifically of President Ronald Reagan's economic policies and of Federal Reserve Board. His main point is that they have made the mistake of unleashing an inflationary tax policy and simultaneously restricting the volume of credit in the economy which in his expert assessment ensures that the U. S. economy will suffer from inflation as well as acute unemployment for years to come. He labels himself a "post-Keynesian". He emphasises that Government has an active role to play in the achievement of the goals of economic policy i. e. maximising economic growth and employment. Monetarists like Friedman and new classical critics of Tobin maintain that the real question is : to what extent should government interference be allowed? Surprisingly Tobin, a contributor to technical economics, does not deal with the nature and characteristics of government in a capitalist economy. Tobin maintains that to increase the effectiveness of monetary policy, the activities of non-bank financial institutions also need to be controlled. Tobin's analysis of financial markets helps in understanding the transmission mechanism, i. e. how a change in money supply affects the various sectors in the economy.

Money supply in Tobin's model is endogenous to the system, while in the monetarist tradition, it is exogenous to the system. In line with Gurley and Shaw, Tobin stresses the importance of controlling total liquidity in the economy and not just the quantity of money. Starting from Markowitz's Portfolio Choice theory, Tobin maintains that the supply of money and other financial assets is the resultant of the portfolio maximising behaviour of individuals and financial institutions.

Professor Tobin says that the agenda for economics derives from two sources: 1) Exogenous sources, that is, the troubles of the real world, such as unemployment or inflation; and 2) Endogenous sources, or the internal momentum of the Science of Economics itself. Tobin suggests that a "golden age" occurs for economics whenever there is a convergence of the external and internal agenda. Such a "golden age" for economics occured 1) at the end of 18th and the beginning of 19th centuries when "External" political and business controversies over international trade, ecoonomic development, and the protectionist Corn Laws in Britain coincided with "internal" development of the theory of markets by the economists; and 2) In 1930s, when the Great Depression came together with the theories of Keynes on how the economy as a whole functions and with the statistical work on National Income by Simon Kuznets at the National Bureau of Economic Research. Does a new golden age for economics lie just ahead? The economic theorists are more remote from the real world problems that are essentially interdisciplinary in character. The divergence between the external and internal agenda poses a dilemma for economists: "Whether to have more and more to say about less and less, or........less and less to say about more and more". The economists are doubtful.

southern
economist

NOVEMBER 1, 1981

Karnataka

1956-1981
A SPECIAL SURVEY

PLATINUM GREETS SILVER

WHAT 75 YEAR OLD CANARA BANK HAS BEEN DOING FOR 25 YEAR OLD

Karnataka

Canara Bank rooted in Karnataka has spread its branches all over the country, turning leaves green everywhere.

..... And in equal measure has contributed to the all-round economic and social advancement of Karnataka.

Canara Bank in Karnataka

Deposits	Rs. ...375 ...crores
Advances	Rs. ...256 ...crores
of which	
Priority Sector	Rs. ... 122 ...crores
1 Agriculture	Rs. 36 crores
2 S.S.I	Rs. 60 crores
3 Others	Rs. 26 crores

Number of branches: 378

Beyond interests, a concern—concern for the common man symbolised in **Canara Bank Rural Development Trust, Canara Bank Relief and Welfare Society, Canara Bank Jubilee Education Fund, Book Bank Scheme and ...... many more.**

CANARA BANK

(A nationalised bank)

Over 1,300 branches all over the country

SERVING TO GROW GROWING TO SERVE CANARA BANK

75 years of Welfare Banking

Karnataka: 25 Years of Uneven Progress

By THE EDITOR

TWENTY five years ago, on this day, November 1, the enlarged state of Karnataka based on linguistic affinity came into being. From an area of just over 86,000 sq. km. and a population close to a crore in the old Mysore state, Karnataka, still bearing the name of the old state, came to have an area of 1.91 lakh sq. km. and a population close to two crores. Incidentally, the state was renamed Karnataka in 1974 — 18 years after the formation of the enlarged state. Today, the population has nearly doubled, to reach 4 crores. This is hardly the occasion, either to question the rationale of the reorganisation of the Indian states on a linguistic basis or to assess the extent of emotional and economic integration that has taken place in the enlarged state, after a quarter century of co-existence. All that is attempted here is a sketchy survey of the progress that the state has achieved during this period, both in absolute terms and in the all-India context.

Planning

As in other states, there has been a steady increase in the plan outlay of the state in successive five-year plans. From a bare Rs. 40.51 crores in the First Plan (1951-56) relating to the old Mysore State, the plan expenditure increased to Rs. 142.56 crores during the Second Plan (1956-61), to Rs. 264.13 crores in the Third Plan, (1961-66), to Rs. 360 crores during the Fourth Plan (1969-74) and to Rs. 852 crors during the Fifth Plan which covered a period of only 4 years. During the two years, 1978-79 and 1979-80, the Plan expenditure of the state totalled Rs. 647 crores. The outlay for the Sixth Plan (1980-85) is Rs. 2,400 crores. If one allows for the price-increase that has taken place during the past 25 years, the plan-to-plan increase in investment appears less impressive but there can be no denying that the tempo of the development activity has been maintained.

The plan priorities in successive five-year plans follows the familiar pattern of irrigation and power taking the lion's share. In spite of this, the irrigation potential of the state is yet to be fully tapped and the power generating capacity is inadequate to meet the demand. In the power sector, the installed capacity has gone up from 179 mW at the end of the First Plan to 1,335 mW in 1979-80. The area under irrigation in relation to the net cropped area has gone up from 10 per cent in the mid-sixties to 22 per cent in 1979-80. Foodgrains production has increased from 32 lakh tonnes in 1956-57 to 71 lakh tonnes in 1979-80. The production of steel has increased from 34,804 tonnes in 1956 to 85,095 tonnes in 1978-79, cement from 5.58 lakh tonnes to 17.25 lakh tonnes, paper from 7,105 tonnes to 93,811 tonnes, sugar from nearly 50,000 tonnes to 5.38 lakh tonnes and iron ore from 25.78 lakh tonnes to 31.87 lakh tonnes. This shows that while progress in some industries has been impressive, the progress in many is rather tardy. It may be observed in passing that given the limitations of the infrastructure — inadequacy of power, meagre railway mileage and so on — the state has made satisfactory progress in industrial development although the lack of heavy industry base is yet to be made good.

Human Infrastructure

The state planners have achieved impressive progress in the fields of education and health, although regional disparities in the level of literacy and in public health facilities persist. The literacy rate has gone up from 19.26 per cent in 1956 to around 38 per cent at present. While, in absolute terms, Karnataka has taken great strides in providing more hospitals and dispensaries, the population per hospital bed, at 1,057, is higher than in Kerala, (445), Tamil Nadu (975) and Maharashtra (792) among a few other states. Unlike in Kerala, Maharashtra, Tamil Nadu and Punjab, the state has yet to achieve 100 per cent enrollment in primary schools. While Kerala spends Rs. 67 per head on education and close to Rs. 21 per head on medical and public health (1978-79 budget figures) Karnataka spends Rs. 42.53 *per capita* on education and Rs. 18.34 on medical and public health. Even according to the figures given by planners, the state has an unemployment rate of 8.32 per cent for the rural sector and 11.36 per cent in the urban sector. In 1977, there were, in all, about 11 lakh jobless persons in the state, not counting the educated unemployed who, according to the "live" registers of employment exchanges, numbered 3.55 lakhs in April 1980. Additional job creation has always lagged behind the growing backlog of unemployment.

Other Indicators

Admittedly, much leeway needs to be made in the power sector.

The installed capacity of power per million population will be 65 mW, against 93 mW for Gujarat, 134 mW for Punjab, 86 mW for Maharashtra and 71 mW for Tamil Nadu by 1982-83. By then, Karnataka will have tapped only 40 per cent of state's hydel potential, estimated at 5,500 mW. Yet, our planners talk of going in for nuclear power generation.

In rural electrification, Karnataka has covered nearly 60 per cent of the villages, against the all-India norm of 50 per cent to be reached by 1988. Although 60 per cent of the villages are given electricity, the number of rural house holds using electricity is of the order of 12 to 15 per cent. With 60 per cent of the rural population living below the poverty-line, and with the majority of the rural families living in thatched huts, even a 100 per cent rural electrification is unlikely to benefit them in any tangible manner. Similarly, about 10,000 villages are yet to be provided safe drinking water.

Regional Imbalances

When the new state came into being, with the addition of adjoining districts from the erstwhile Bombay, Hyderabad and Madras states, in 1956, the state planners faced the major task of levelling up the backward areas—mostly in the Bombay and Hyderabad Karnataka regions. In 1960-61, the *per capita* income of the state was Rs. 289. The *per capita* income of Bidar and Bijapur, to mention only two backward districts was Rs. 223 and Rs. 243 respectively in that year. In 1977-78, the state *per capita* income stood at Rs. 1,132, while the *per capita* income of Bidar and Bijapur amounted to Rs. 880 and 770 in that year. The composite index of development prepared by the state planners gave 16th and 17th ranking to Bijapur and Bidar in 1960-61. In 1979-80, while Bijapur's ranking slipped down to 15, Bidar stood where it was, in its 17th position. Again Gulbarga, which occupied the 19th position in 1960-61, had the same ranking that is, 19, even after 19 years. This goes to show that the efforts of the state planners to remove regional imbalances have not helped in improving the economic conditions in the backward districts. Even within these backward districts, the rich seem to have become richer and the poor poorer.

Karnataka and the Rest

Where does Karnataka stand in relation to the other states in terms of *per capita* income and the rates of growth? In the early seventies, the state held the sixth rank in *per capita* income, with Tamil Nadu (8), Andhra Pradesh (9) and Kerala (11) coming down the list. In the late seventies, the State went down in the ranking, to occupy the seventh place, with the other southern states too slipping down, with the exception of Kerala which moved up to 8th ranking. In the eighties, the state planners' efforts should be directed at (a) reducing the rate of growth in population and (b) attract more investment from the more affluent states.

One sees a similar deceleration in the state's performance in NNP growth rate and in *per capita* growth rate. The average annual NNP growth rate in the sixties, which stood at 11.1 per cent, came down to 8.8 per cent in the seventies, when the national average went up from 10 to 11.7 per cent. Actually, the neighbouring states of Kerala, Tamil Nadu and Andhra Pradesh improved their performance during this period. In *per capita* terms, Karnataka's growth rate came down from 8.7 per cent in the sixties to 6.5 per cent in the seventies. The decelerating trend is maintained in the Sixth Plan which seeks to "achieve" a growth rate of 6.5 per cent.

Assesment of Outlook

It cannot be denied that the unification of the Kannada-speaking people under one administration has brought in a number of benefits not all of which can be quantitied. The cause of the economic slow-down, over the decades, can be found in (a) the failure of the planners to step up infrastructure investment adequately (b) the relatively small central sector investment in heavy industry in the state (c) the excessive bureaucratisation of the plan administration which tended to sap local initiative (d) political leadership of poor calibre which has failed to establish good rapport with the people (e) prevalence of corruption which has diluted the benefits of planning reaching the people (f) lack of attention to the less developed districts which remain as poor as they were at the time of the formation of the enlarged state and (g) the failure of the entrepreneurial class within the state to fill the lacuna in the area of private sector investment.

Even with all these shortcomings, it can be said that the outlook for the state is quite promising. This hopeful prediction is based on certain obvious advantages that the state enjoys: (a) the possession of a surplus pool of technical personnel who, given the necessary back up, can take the state to a higher plane of development (b) the equitable climate in most parts of the state which facilitates any productive endeavour (c) the availability of a highly developed financial infrastructure in the shape of banks and other financial institutions and lastly, the cosmopolitan outlook of the Kannadigas which enable venturesome people from the other states to participate in the joint endeavour of building a modern State.

Optimal Utilisation of Local Resources: Karnataka's Case Study

By D. M. NANJUNDAPPA *

THE emphasis on macro-planning, which relied heavily on sectoral investment and the securing of inter-sectoral balances in output hardly led to any percolation of the planning efforts to reach the poor, the backward regions and the local resources available in them. It is only when detailed micro-planning is attempted that sectoral, spatial and functional approaches get integrated for the best use of the local resources.

In Karnataka, for example, the ultimate irrigation potential is of the order of about 54 lakh hectares. Of this, only 22 lakh hectares have now been developed. There is still reported to be scope for more than 12 lakh irrigation wells. The State has a power potential of 5,500 mW of which only about 35 per cent to 40 per cent is now used. As for the mineral resources like iron ore, it is well known that they can serve for many hundreds of years. But we are all still in the stage of exporting the iron ore in a sub-optimal manner instead of taking up the processing of iron ore in the country itself.

The regional imbalances we notice in a State like Karnataka are mostly due to lack of full utilisation of the resources available in the different districts. In terms of overall development, Bangalore and Dakshina Kannada districts appear to be developed districts in relation to the state average. Sectorally, in industry, agriculture and infrastructure, Bangalore district is highly developed. But, we find that in land utilisation it is backward. This is due to unsatisfactory large scale non-agricultural use of land for industrial purposes and for human habitation.

Dakshina Kannada district is developed in infrastructure, agriculture and land utilisation. Eleven districts are declared to be backward and Gulbarga among them is most backward. The lack of infrastructure and the necessary investment to exploit the local resources are the main causes for such a situation. Except Dharwad and Bangalore Districts, no other district can claim to have registered conspicuous industrial development utilising local resources.

In goes to the credit of Karnataka that the spatial dimension was brought into the planning process about three years ago. Efforts are made for promoting a more equitable flow of investment among the different districts on the basis of the relative needs and the location of local resources. For effective utilisation of local resources, intimate knowlege of local resources, the sope for their exploitation, determination of location, working out of the linkages among the different programmes, preparing household profiles, preparing credit plans etc. are needed. Thus, area planning in a sense becomes an instrument for promoting optimal utilisation of local resources.

If local level planning is to be successful, it calls for decentralisation of plan programmes and other schemes and their horizontal integration at the block level. In Karnataka, State sector, District sector and Block sector schemes have been identified. Generally, the demarcation of these sectors was done on the basis of whether an individual scheme is demostraably of benefit to a particular district or block and will promote the socio-economic interests of the people belonging to that area and can bring about the utilisation of local resources. Another important consideration was whether such an activity could be planned and implemented at the local levels without adversely affecting the efforts for ensuring proper linkages at higher levels.

As said earlier, the different districts have different resource endowments and posses varying degrees of local resources. If they are to be properly used, obviously funds have to go to these areas depending upon their degree of backwardness and also the potential they posses. On these considerations, in Karnataka, the plan outlays are distributed among the districts and blocks on the basis of objective criteria like population which has a weightage of 50 per cent and other indicators of backwardness which have a total weightage of 50 per cent.

These indicators include agricultural backwardness, backwardness in irrigation, backwardness in industrial output, backwardness in financial infrastructure, backwardness in power supply, backwardness in roads and communications, backwardness in medical and health facilities, problems of weaker sections, special problems of the area, incidence of unemployment and the like. By way of incentives for getting more funds for utilisation of the local resources, some weightage is also given to the local tax effort.

Incentives should vary according to the magniture of underutilisation of the local resources and the backwardness of the region. It is also necessary to motivate rural entreprenurs and promote development of rural industries which help in utilising the local material including the human resources of the area. In Karnataka, 51 taluks have been declared as backward for purposes of offering incentives like capital subsidy, tax reliefs etc. Advantages of these incentives have to be fully taken for exploiting unutilised resources of the area. Notwithstanding this, it is observed that only two or three industrial area belts in the State have come up

---

* Dr. Nanjundappa is Vice Chancellor, Karnataka University, Dharwad.

Excerpted from a talk delivered on April 20, 1981 on the occasion of Radio Science Sammelan at Bangalore.

although other areas are not lacking in infrastructural facilities.

In areas like the use of the agricultural waste and the starting of agro-based industries, science and technology can play an effective role. It is a matter of gratification that in Karnataka, we have set up a State Council of Science and Technology and also we have set up two new departments: viz., (1) Department of Science and Technology and (2) Department of Environment. These are intended to offer the broad guidelines and support for the utilisation of the local resources and also for preventing over-utilisation of resources.

When we are on the subject of optimal utilisation of local resorces, it is equally important to note how optimal utilisation of local resources in a given area may not necessarily lead to prosperity of the people of that area although in totality, it might have contributed to the overall growth and welfare of the State or the Country. For example, Uttara Kannada district in our State has abundant forest resources, water resources — for irrigation as well as for generation of hydro-power. In an effort to get at the optimal utilisation of local resources, heavy investments are made in the hydro-power projects which, along with the industrial needs, has led to large scale denudation of the forest wealth.

The net consequence is an econological imbalance and its attendant evils. Poor people, who depended upon the forests for livelihood, are now deprived of their source of livelihood and the local resources have not been used for the benefit of the local area and its inhabitants as such. Although a giant hydro-power project has been commissioned which will have a power potential of 910 m.W. within the next one or two year, it is still astonishing to note that the Uttara Kannada district, hardly 36 per cent of its villages are electrified. Still, more than 800 villages are yet to get the benefit of electricity. Even the firewood is not available at reasonable prices.

This clearly shows that while on the one hand we may devise policies for optimal utilisation of local resources, we are likely to land ourselves in a very serious situation of highly skewed distribution of the benefits of such utilisation. Other districts in the State might, no doubt, get a higher share of power. But the district which had contributed the local resources suffers a transmitted deprivation. Therefore, along with optimal utilisation of local resources, we should also aim at a more equitable distribution of the benefits of such optimal utilisation. This can be achieved partly under local level planning. Perhaps, a more deliberate policy of compensatory development in areas like forests, electrification of villages, etc., may have to be included in the policy armoury, if the intended benefits of the optimal utilisation of local resources are to reach the people inhabiting the area, especially the poor.

DISQUIETING PRICE-RISE IN KARNATAKA

Prices in Karnataka have increased considerably since March 1980. The general price level has considerably risen between March and December 1980 as reflected in various indices and absolute prices referred to above. However, the increase in the prices has been uneven during all the months. Prices of commodities like jowar, bajra, ragi, gram, tur, potato, arecanut and coconut which were increasing moderately during March August 1980, have risen sharply from September 1980 onwards, and the upward trend continued till December 1980. The price index of gur, which was 833 in March 1980 showed an upward trend throughout 1980-81 until it reached the level of 1181 in September 1980. In subsequent months, the index showed a declining trend and it stood at 901 during December 1980.

Similarly, the open market prices of sugar steadily increased till August and then onwards were galloping to unheard of level. In view of the impending spurt in demand during the festivals season of September and October, this caused great anxiety. Government has taken prompt steps to prevent the possible havoc and greatly succeeded. Considerable quantities of sugar were imported. The All-India Sugar Mills Association has agreed to place at the disposal of Government all the sugar stocks at Rs. 4,500 per tonne for distribution. The Government has stopped all releases of sugar to private trade channels, pooled the imported and indigenous sugar supplies and undertook distribution of sugar at a reasonable price, which was fixed at Rs. 6.40 per kg. in Karnataka.

This arrangement lasted till the middle of November 1980 by which time and the crushing seasons was apace and the good prospects of sugarcane/sugar production have had favourable impact on the market forces. Thus, even after resumption of private distribution since the middle of November, the sugar prices were stable at about the level obtained in March 1980 or at slightly higher level by the end of December 1980. However it is to be noted that during January and February 1981 the open market sugar prices have again been rising. It may also be mentioned here that the controlled price of sugar in the public distribution system has also been raised from Rs. 2.85 to Rs. 3.50 per kg. in Karnataka with effect from December 1 1980.

Thus the price situation remains alarming in the State. Particularly the prices of basic consumption goods have gone up steeply, causing considerable hardships to the vulnerable sections of the society and serious distortions in the development programmes and also private production plans. The instability in prices of some important agricultural commodities has led to fluctuations in their production causing basic imbalances between supply and demand. Coupled with this, the imperfections in the distribution system have accentuated the inflationary trends and instability in prices. This calls for immediate and concrete long-term price policy if the economy is to be freed from the ill-effects of inflation and instability in prices. The scope of the public distribution system needs to be enlarged and the strategic and basic essentials are to be made available in the required quantities and in time at least to the poorer sections at fair prices.

Regional Imbalances within Karnataka: An Analysis

By T. A. KESHAVA MURTHY

THE formation of the greater Karnataka State on November 1, 1956, fulfilled a long cherished ambition of our lifetime. With the cultural and emotional issues settled, we got ourselves an opportunity to forge ahead all round. Karnataka has since then progressed substantially on the economic front. Economic progress achieved over these 25 years is summarised in Table-1.

But there is no room for complacency for the simple reason that Karnataka is still far below the national average. It is surprising that Karnataka is below national level despite higher land utilisation and working force employed ratios. Karnataka's working force was 34.7 per cent of the total population as of the 1971 census against the all India level of 32.9 per cent. Land utilisation was 48.3 per cent against the national level of 46.1 per cent. Unfortunately, Karnataka is confronted with three major problems—problems of border, water and frequent draughts. While the border and river water problems are mainly political in nature the problem of draught is of natural and geographic.

However, a major factor contributing to the slow economic growth of Karnataka is the serious problem of continued regional imbalances within Karnataka. This problem of regional economic imbalances has not attracted the attention of the rulers of the state to the same degree as that of border, water and perennial draught problems. Let us therefore have a look at this problem.

'Regional disparities emerge and persist due to social, economic, political and cultural factors.... If these disparities are allowed to continue they may adversely affect the overall development of the economy itself'.[1] Although it is difficult to set guidelines to identify the backwardness or development of any area, the Government of Karnataka, in its anxiety to correct the regional imbalances, has outlined various indicators having bearing on development. As far as the backwardness is concerned, these indicators are again broadly grouped under the following six categories: (1) Demographic factors; (2) Occupational pattern; (3) Land utilisation; (4) Agricultural development; (5) industrial development (6) Infrastructural development.

Keeping the above indicators in view, and the relative degree of development so far achieved by all the 19 districts of Karnataka, the Government has grouped the districts into 4 categories, viz., highly developed, developed, backward and highly backward districts as follows: Highly Developed Districts: (1) Bangalore, (2) Dakshina Kannada; Developed Districts: (1) Chitradurga, (2) Kodagu, (3) Kolar, (4) Mandya, (5) Mysore, (6) Shivamogga, (7) Uttara Kannada; Backward Districts: (1) Bellary (2) Belgaum (3) Bidar (4) Bijapur, (5) Chikamagalur, (6) Dharwad, (7) Hassan, (8) Raichur, (9) Tumkur; Highly backward District: (1) Gulbarga.

A cursory glance at this listing indicates beyond doubt the real backwardness of the erstwhile Hyderabad and Bombay districts. While the districts of old Mysore state, with the exception of Hassan, Chikamagalur and Tumkur are considered developed, only 2 districts among the new districts merged with old Mysore are developed districts viz. Dakshina Kannada and Uttara Kannada. The continued backwardness of as many as ten districts among 19 even after 25 years of the formation of the new state, is the key indicator to the continued slow growth of Karnataka's economy. To enable the readers to have a more comprehensive view of the situation, district-wise composite index of development along with a few selected indicators of development are shown in the following Table-2.

Prima facie, it is clear from the Table that most of the districts of the old Mysore are more progressive than the newly added districts. The Districts of Belgaum, Dharwad, Bijapur, Gulbarga, Bidar and Raichur needs special mentioning. The net sown area in all these districts was above the state average but the yield per hectare of cereals was far below state average yield. The status of non-agricultural workers and also the number of industrial establishments in these backward districts is in no way better. Consequently, the rankings of composite index of development remained unchanged in respects of districts Belgaum, Bidar, Gulbarga, Raichur. On the contrary, Bangalore district occupied the top place in 1979-80 from its original No. 2 place of 1960-61.

TABLE-1

Item		1961	1979-80
Area under food grains	(lakh hect)	75.80	70.44
Food grains	(lakh tonnes)	39.30	74.65
Gross area under irrigation	(lakh hect)	8.58	22.94
Electricity—installed capacity	(M. W.)	185.7	1335.4
No. of villages electrified		4063	16,407
Cement	(lakh tonnes)	7.25	17.25
Sugar	(lakh tonnes)	1.23	5.38
State Income at current prices	(Rs. in crores)	667.4	4108.3
Per capita income	(Rs.)	286	1184

Sources: 1. Draft five year plan—1980-85; 2. Economic Survey 1979-80.

---

[1] Karnataka's draft Sixth Five Year Plan, 1980-85, Chapter VI, para 1.

Ensuring dependable energy sources

Kirloskar Electric Company. A dynamic force providing dependable energy sources. For over three decades, the Company's products have been an integral part of India's progress — in generation, transmission, distribution and utilisation of electrical energy.

Uninterrupted Power Supply Systems (UPS), Automatic-on-Mains Failure Sets, Motor Generator Sets, AC and DC Generators, High Frequency Machine Systems, Ground Power Units, Ward Leonard Sets and Diesel-driven Mobile Power Units, designed, manufactured and tested by Kirloskar Electric, meet the most exacting standards of the customers. Efficiently converting energy for marine, aeronautical and industrial applications. No wonder, quality-conscious consulting engineers and users opt for Kirloskar Electric equipment.

Kirloskar Electric is the only Indian Manufacturer to supply UPS sets to the nation's atomic power stations. Today, the need for these systems in many vital service and industrial establishments, is being met by the wide range offered by the Company. UPS systems are also manufactured to specific customer requirements.

The quality and reliability of Kirloskar Electric equipment is endorsed by continuing orders from BARC Power Projects Division, Defence Establishments, Electricity Boards, Hospitals, Lighthouses, Shipyards, Satellite and P&T Communication Centres and many others.

Kirloskar Electric Company moves into the future with its tradition of serving the nation through technological progress.

OUR PRODUCT RANGE

AC Machines — Motors upto 2000 kW. DC Machines upto 1000 kW. AC Generators upto 1875 kVA. Machine Systems — UPS upto 500 kVA; Ward Leonard Sets upto 500 kW; Machine Tool Drive Systems. Transformers upto 220 kV 50 MVA and HV Testing Systems upto 1500 kV. Welding Equipment, Accessories and Systems upto 900 amps. Defence Equipment — Power Sources and Electronic Control Systems for Industrial Drives. HF Induction Heaters, Induction Tube Welders — Power Sources and Systems.

Converting energy for the millions

Kirloskar Electric Co. Ltd.,

P. B. No. 5555, Bangalore 560 055

TABLE-2

DISTRICT—WISE COMPOSITE INDEX OF DEVELOPMENT

Sl. No.	Districts	Composite Index of Development (Rankings)		Per capita Income (Rs.) 1975-66	Density of Papulation 1980	% of non-agricultural workers in total workers 1971	Nett area sown as % of cultivable land 1978-79	No. of Industrial establishment % of state total 1979-80	Average yierd per hectare (in kgs) cereals 1977-78
		1960-61	1979-80						
1.	Bangalore	2	1	1,215	514	61.1	87.70	34.73	2,023
2.	Belgaum	12	12	845	211	27.3	90.34	4.04	844
3.	Bellary	14	11	1,023	132	28.1	87.17	5.11	1,055
4.	Bidar	17	17	766	178	32.1	81.75	1.29	1,035
5.	Bijapur	16	15	694	134	28.8	90.91	3.52	523
6.	Chikamagalur	7	14	1,327	120	44.0	83.74	1.58	1,740
7.	Chitradurga	11	9	1,042	156	28.1	71.07	5.08	1,444
8.	Dakshina Kannada	1	2	1,199	270	46.3	80.14	6.10	2,012
9.	Dharwad	8	10	824	198	31.8	97.22	6·38	672
10.	Gulbarga	19	19	738	126	31.1	87.32	1.71	705
11.	Hassan	13	13	983	190	27.5	85.72	2.13	1,751
12.	Kodagu	6	7	2,535	106	56.4	93.12	1.32	2,201
13.	Kolar	4	8	772	207	25.4	88.89	4.07	1,500
14.	Mandya	10	5	971	283	20.2	88.55	3.72	2,299
15.	Mysore	5	3	1,116	205	32.9	86.40	6.54	1,755
16.	Raichur	18	18	871	121	24.3	82.90	2.54	886
17.	Shimoga	3	4	1,354	149	34.5	80.47	4.36	2,153
18.	Tumkur	15	16	870	175	25.2	78.93	3.39	1,096
19.	Uttara Kannada	9	6	1,295	97	45.5	87.92	2.39	1,747
	STATE			1,005	180	34.5	86.63	100.0	1,174

Source ; 1. Karnataka Draft Five Year Plan 1980-85

2. Economic Survey 1979-80.

Mandya, Mysore, Uttara Kannada and Bellary improved their rankings.

Why this anomaly after all? Even assuming that one district or the other had to occupy the 19th position, the overall development of these backward districts from all angles need to have been improved further. Concentrated development in Karnataka has led to a serious situation—the problem of regional economic imbalances. The total or near-total neglect of northen districts Karnataka in the matter of economic development has led to frustration among the people of these areas. This is the most disappointing aspect of Karnataka's economy over these 25 years.

The prospects of minimising the regional imbalances in Karnataka over the next few years period are not encouraging either. Firstly, at the state level, development will be for below national average. The *per capita* income in Karnataka is expected to reach Rs. 1,500 at the end of 1984-85 against the all-India *per capita* income target of Rs. 1,744. Whether or not the above targets are achieved both at the state and national levels, the gap is bound to continue for years to come. Secondly, the development efforts to minimise the regional disparities are far below expectations. Two specific reasons may be attributed to this trend.

1. *Poor Plan Outlay :* Karnataka has spent under the state sector a sum of Rs. 2,497.18[2] crores upto the end of 1979-80 and proposes to invest another Rs. 2,400 crores during the plan period 1980-85. But the regional disparities continue to exist. One of the major reason for such continued regional disparities is the poor plan outlay. The plan outlay even during the Sixth Plan period is rather poor and the following data speak for themselves:

In view of the above, the plan outlay of Karnataka per 1000 sq. kms of area is lowest and also far below national average. Similarly, the *per capita* investment during the Sixth Plan is also low. With such low investment ratios over total area and also population, the development efforts for minimising the region imbalance is not likely to bear fruit even by the end of 1980-85. Assuming that the outlay for the seventh Plan will increase by around 50 per cent, the all-India *per capita* investment under state sector is likely to be Rs. 1,000 and plan outlay per 1,000 sq. kms area about Rs. 23 crores, Karnataka should have a plan outlay in the Seventh Plan of around Rs. 4,500 crores to reach the national level. But one cannot be optimistic about the possibility of such a huge investment during the Seventh Plan.

2. *Absence of State Government Industries in Backward areas.* The most distressing part of Karnataka's economic development over these 25 years is the state Governments total neglect of backward districts in the matter of establishing its own industries. During this period no industries were established in these areas. At the same time the state Government has no proposals to establish industries either. Bulk of the plan outlay of Rs. 165 crores for industries sector during the 6th plan is earmarked for the ex-

---

[2] The expenditure does not include the outlays for the period earlier to 1st Nov, 1956 relating to districts other than of erstwhile Mysore state.

TABLE-2

PLAN OUTLAY UNDER STATE SECTOR 1980-85*

States	Plan outlay under State sctor Rs. in crores	Area in lakh sq. kms (1971)	Population 1981 (in crores)	plan outlay per 1000 sq.kms(Rs. in crores)	Per capita plan outlay Rs.
Gujarat	3,760	1.96	3.39	19.18	1,109
Karnataka	2,400	1.92	3.70	12.50	649
Maharastra	6,175	3.08	6.27	20.05	985
West Bengal	3,660	0.88	5.44	41.60	673
Punjab	1,975	0.50	1.66	39.50	1,190
Tamil Nadu	3,150	1.30	4.82	24.23	654
All-India (all states & union territories)	50,250	32.88	68.38	15.28	735

* Excludes Central Govt. sector outlays.

pansion of the existing industries, viz., VISL, NGEF, KSDL, MPF etc. None of these state industries are in new districts of Karnataka. Had the state Government established big and medium sized industries in each district the employment prospects would have been brighter. It would have reduced the burden of over employment on the primary sector —agriculture. Unless these essentials are understood and industries are established in these backward areas, real development remains only on paper.

The people of the backward districts have every reason to express their resentment over the state Government's indifferent attitude towards them. After all, they all aspired for formation of greater Karnataka with great hopes. No doubt, great efforts are made these days to improve the agricultural sector through various irrigation schemes, viz, Malaprabha, Ghataprabha, Upper Krishna, Karanja and so on. There still remains a big gap between the living standards of the people of these areas and those in the districts of old Mysore. Mere relief measures alone in draught prone areas does not bring in the needed confidence. The real standard of living of the people can be increased only when they have the required pruchasing power, which in turn can be obtained through employment. Full employment can be attained when secondary and tertiary sectors are also encouraged in line with primary sector. Hence the importance of establishing large and medium sized industries in all areas specially in backward districts.

MYSORE MINERALS LIMITED

(A Government of Karnataka Undertaking)

Regd. Office : No. 39, M. G. Road, BANGALORE-560 001.

MYSORE MINERALS LIMITD, an Undertaking of the Government of Karnataka, has embarked on exploration, exploitation and sale of following Minerals :

1. IRON ORE
2. MANGANESE
3. CHROMITE
4. CLAY
5. ASBESTOS
6. SOAPSTONE
7. LIMESTONE
8. FELDSPAR
9. BAUXITE

Of the above Iron, Chromite and Manganese Ores are export-oriented

Grams : "MYMINERAL"
Phones : 55622, 55623, 55624
Telex : 432

Land Reforms and Distributive Justice in Rural Karnataka

By N. G. CHACHADI *

LAND reform means the redistribution of property or rights in land for the benefit of small farmers and agricultural labourers.[1] Indian agrarian policy has been much influenced by the belief that the small scale of Indian farming is the main cause of its inefficiency, and that it is hopeless to try to raise the level of yields until the problem of uneconomic holdings can be solved. The basic objective of the Karnataka State plans in recent years has been increasing production and employment and achieving a more equitable distribution of income with increasing ownership of the means of production, like land, by the poor, especially Harijans, artisans, landless agricultural labourers, marginal farmers and backward communities.

Land reform which is the principal means of distributive justice in rural areas has been tackled on two grounds. Firstly, conferring ownership right of land to the tenants. Secondly, fixing the ceiling and distribution of surplus land among the landless. As a result of the implementation of the recent Land Reforms Act in Karnataka, which is a bold step, numerous farmers suffering under the clutches of landlords, have been freed and are now owners of the land which they cultivated as tenants. By abolishing the tenancy system and declaring that tenant is the owner of the land the government has bestowed ownership rights on large number of farmers.

For instance, till the end of May 1979, nearly 2.83 lakh tenants got ownership right on 11.37 lakh acres of land. Thus the dream of landless to have their own land has come true today. This measure has given added strength to the farmers to make necessary improvement on land and increase agricultural output.

The second aspect of land reforms is fixing the ceiling limit and distributing the surplus land among the landless. In fact, there is a lot of controversy in the matter of bringing structural changes through the imposition of ceiling on land holdings and distribution of surplus land among the landless and owners of uneconomic holdings. An explicitly stated purpose of ceiling on land holdings is to obtain the surplus land for redistribution. But the surplus that can accrue from any feasible ceiling is small and neglible for purposes of redistribution.

Looking at the poor performance of the ceiling Act in various states and the working of the theory of man-land ratio, a group of economists are of the view that there is not sufficient land available to provide evan half an acre of land to each individual of the farming community. The main effect of ceilings on owner-cultivated farms is to present the growth of capitalist agriculture and may have serious consequences on agricultural growth. This is generally recognised fact. But the uncontrolled growth of inequality in the agrarian economy may also have serious consequences. Hence ceiling on land holdings continues to be advocated.

Equal attention needs to be paid to the size of land holdings in the agricultural sector, i. e., the over-populated sector. Here, by definition, most of the land holdings are uneconomic. It is mainly because of the continued subdivision and fragmentation of small holdings on which under-fed bullocks compete with underfed human beings for the meagre yields. At the bottom of the rural hierarchy there is a mass poverty, at the top we have comparatively well-to-do non-working landowners, in between a broad range of working peasant owners and tenants.

Two main features emerge from the following table. (1) A large proportion of rural households are either landless or hold tiny areas of land. (2) The large proportion of land is in the shape of small holdings. It is also clear from the table that there has been some marginal change in concentration of ownership area in Karnataka.

DISTRIBUTION OF HOLDINGS IN DIFFERENT SIZE-GROUPS IN KARNATAKA

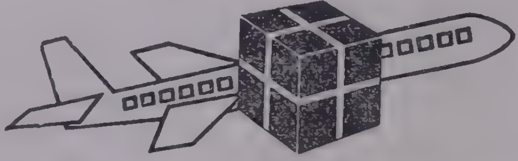
Size-groups (hectares)	1970-71		1976-77	
	Percentage of holdings	Percentage of cultivated area	Percentage of holdings	Percentage of cultivated area
1	2	3	4	5
0 - 2 (Marginal farms)	54.08	15.56	51.50	17.23
2 - 4 (Small Farms)	22.25	19.41	26.71	20.14
4 - 10 (Medium Farms)	17.40	33.36	16.56	33.97
10 & above (Big farms)	6.27	31.67	5.23	28.65
TOTAL :	100.00	100.00	100.00	100.00

Source : Compiled from Agricultural Census, 1970-71 and 1976-77, Government of Karnataka.

---

* Lecturer in Economics, Karnataka Arts College, Dharwad.

[1] Agriculture and Economic Development. Ed. Eicher and Witt (New York and London, 1965) – 272-98.



India's first inland integrated air cargo complex, with facilities for processing of export documents, customs clearance, warehousing and handling of air shipments —all under one roof.

BANGALORE AIR CARGO COMPLEX

AIR CARGO'S NEW GATEWAY TO THE WORLD

Exporting your products from Karnataka?

You no longer have the problems of initial transport by road to Bombay or Madras, additional insurance, octroi payment and refund formalities, and the usual worries

Come to the Bangalore Air Cargo Complex We are located at the Bangalore airport, and offer you all the facilities you require: Customs clearance, processing of export/import documents, warehousing, handling of air shipments. Also available here are services of State Bank of India, Air India, Indian Airlines and clearing and forwarding agencies—all under one roof.

Whatever your industry—from engineering, electronics and telecommunications, to silk fabrics, garments, handicrafts, agarbathis and sandalwood oil—route your international air cargo directly through the Bangalore Complex.

Launch your products in the world market. From the Bangalore Air Cargo Complex

MSIL

Administrators.
Mysore Sales International Limited
MSIL HOUSE, AIR CARGO COMPLEX
BANGALORE AIRPORT, BANGALORE 560 017.
Phone: 55736/565387

Predominance of households in the lowest size-group is more pronounced. Land owning households in the upper size group have declined. There is a significant break in the concentration of land above the size group of 10 hectares, which accounts for nearly 29 per cent of the total cultivated area. It seems that the change has been directed towards the diffusion of land among lower size group of owners because smaller groups show corresponding increase in the percentage area held.

The existing inequality in the ownership of land, even after land reform measures, is quite apparent. Inspite of the ceiling legislation, both ownership and operational farms above the size of 50 hectares continue to exist. The Agricultural Census of 1976-77 provides up-to-date figures regarding the concentration of operational holdings in a few hands. The percentage of operational holdings below 4 hectares show considerable increase in 1976-77 over 1970-71 figures. However, the percentage of area above 50 hectares has not decreased substantially. As a matter of fact, the group-wise analysis of percentage concentration of holdings and area do not reflect much change in operational concentration of land. Thus, so far as the goal of achieving social justice is concerned, the land reform measures have yet to go a long way in Karnataka.

With small size of land holdings and irrigation facilities hardly reaching 20 per cent of the net sown area, it would not be far from truth to say that nearly 79 per cent of the rural households in Karnataka suffer from poverty on account of severe under-employment. In the mean time, there has been a great increase in the number of rural households and subdivision of holdings has continued, so the proportion of households without land or with less than 1 hectare must have increased and may now amount to as much as 80 or 85 per cent of the rural households. These landless or sub-landed households depend on the other 15 to 20 per cent of households for employment, either as labourers or as tenants and share croppers.

With a fairly high and rising growth rate of population, the rate of movement out of agriculture is low, and agricultural population grows almost as fast as the total population. Industrialisation, which appeared to be the panacea, has not provided a solution for the over-supply of labour in agriculture, because modern industries are capital-intensive. Labour which leaves the land moves into the uneconomically swollen sector of low-paid casual occupation dignified by the term "Services Sector", largely representing a shift of the surplus from the rural areas to the towns.

In consequence, the rural exodus solves no agricultural problems. The poorest class in the farm population increase in numbers. It is they who feel the effects of food shortage. Therefore the social case for land redistribution in India is not that the rich are so rich, it is that the poor are so poor and so large. Therefore the land systems needs to be reformed for the sake of increasing productivity, as well as for the sake of redistributing incomes. But how to reform the land system in such a manner as to increase production?

The existing uneconomic holdings, inspite of the adoption of improved agricultural practices, fail to produce a surplus over and above the subsistence level. The population subsisting on these farms, inevitably lives by capital consumption causing continuous deprevation of land resources. This is generally recognised and along with the ceiling on land holdings a floor to the land holdings is advocated. However, there is no practical proposal as to how a floor to the land holdings may be enforced.

If uneconomic holdings are not desirable and yet cannot be pooled into cooperatives, there is no alternative to eliminating them by squeezing them out of agriculture. This is not easy, because it would be inhuman to expropriate the small farmer without giving him any alternative means of livelihood. Nevertheless, it must be recognised that uneconomic holdings are harmful both for the land and the population which subsists on it. It is also not easy to help this small farmers out of the uneconomic size of their operation.

Even if it may not be possible to eliminate the uneconomic holdings forthwith, facilities must therefore be created to the small farmers to move out of agriculture whenever they see alternative opportunities. One of the difficulties that may arise in moving out of agriculture is the lack of mobility resulting from their attachment to land. They are unwilling to sell their land until they are satisfied that the alternative opportunities are adequate and reliable. The normal process for uneconomic farmer is to lease out his land to a tenant himself, to move out into an alternative employment and finally to sell his land when he is satisfied that the alternative employment is adequate and secure.

In order to give further momentum to this process, some percentage of jobs should be reserved for uneconomic farmers just as for SCs and STs; which will act as an incentive for them. Thus while contemplating a ban on the system of leasing out, these social and economic factors have to be taken into account. A universal ban on leasing out of land may hinder this process and place these small farmers in a difficult economic position. This must be avoided. Hence, though renting out to tenants should, in general, be prohibited the uneconomic holders should be exempted from such prohibition. They may be permitted to lease-out their lands. Being small and themselves likely to move out of the village after leasing out, they are unlikely to exploit the tenant. The tenant may be given the normal security of tenure subject to the right of the small owner to resume his land if he desires to come back to agriculture. This will improve the mobility of the uneconomic holders and will enable them to gradually move out of agriculture.

For the same reason, creating new uneconomic holdings needs to be avoided. This has not been done in Karnataka. Till the end of May 1979, about 1.28 lakh acres of surplus land has been distributed by the land tribunals. So far, 3,898 Harijans and Girijans and 3,098 persons belonging to backward classes have been given 16,339 acres of land. This is nothing but creation of new uneconomic holdings in the rural sector. So far, 73.87 lakh acres of land has been declared as surplus. Such surplus lands should be utilised, as far as possible, to enlarge some of the existing uneconomic holdings to an economic size rather than to create new uneconomic holdings. This is not done. On the other hand, the landless labourers usually receive a high priority and naturally the land gets distributed into new uneconomic holdings. But the gain can only be short-lived. If reform does not help to increase production, the growth of population will offset the benefits to the landless. Thus uneconomic holdings are harmful to the land and reduce the mobility of persons concerned by tying them down to small pieces of land. The problem of the landless is serious. Yet, under conditions of over-population, it cannot be resolved by providing land to everybody.

Maldistribution of ownership is not the only problem connected with inefficient land-use, not the only factor which prevents production from increasing. There are others problems of even greater importance. There is need for investing more capital in agriculture in large scale projects like irrigation, in fertiliser production, in livestock and in research.

Irrigation is the key to the reform-and-development complex. More and better water supplies would raise yields and provide a secure basis needed for investment in the complementary inputs; at the same time the construction of new schemes would increase employment. Data collected from all over the country show that, on an average, irrigation increases employment in agriculture by 40 man days per hectare. So the development of irrigation facility will not only increase agricultural output but also provides more employment. Thus the condition of landless in rural areas can be improved.

Agrarian reform should be supplemented by a large number of other complementary institutional reforms like agricultural extension, provision of cheap credit, supply of fertilisers, improved seeds and implements; improved markets etc. Activities in agriculture like enlarging the size of uneconomic holdings, intensive use of inputs coupled with provision of irrigation will substantially increase agricultural output and at the same time provide employment to landless throughout the year.

ARDC STEPS UP ASSISTANCE IN KARNATAKA, KERALA

The Agricultural Refinance and Development Corporation stepped up its assistance in Karnataka in 1980-81. Refinance to the tune of Rs. 17.8 crores availed of by financing institutions in the State during the year represented an increase of about 27 per cent over the level of disbursements of about Rs. 14 crores during each of the years 1978-79 and 1979-80. The commercial banks and SLDB shared the refinance disbursed almost equally. The disbursements to SLDB at Rs. 8.5 crores during the current year were more than double the amount of refinance (Rs. 4.0 crores) availed of during 1979-80. The balance amount of Rs. 0.8 crore was availed of by the RRBs.

The schemes for minor irrigation including those under the REC programme of energisation of pumpsets absorbed Rs. 5.7 crores reflecting continued demand for minor irrigation investment, while farm machanization and diversified purposes accounted for Rs. 3.4 crores and Rs. 8.7 crores respectively. Of the diversified purposes, plantation/horticulture accounted for Rs. 2.6 crores followed by fisheries (Rs. 1.8 crores) and IRDP (Rs. 1.4 crores) and the balance of Rs. 2.9 crores was disbursed for market yards, poultry, dairy, sheep breeding etc, schemes. A notable feature of this year was that disbursements under IRDP were higher as against a meagre sum of Rs. 3 lakhs disbursed during the previous year.

Karnataka is the only State in which six IDA-assisted projects were in operation. This IDA credit to be routed through ARDC under the Karnataka Agricultural Wholesale Markets Project has been fully utilized during the year. The other projects, viz., Dairy Development and Sericulture Projects are under implementation. With the refinance commitment of Rs. 36.1 crores under the schemes sanctioned during the year, the cumulative commitments of ARDC stood at Rs. 248.7 crores as at the end of the year against which cumulative drawals aggregated Rs. 135.9 crores.

The disbursements of the Corporation in Kerala improved from Rs. 10.0 crores during 1979-80 to Rs. 14.2 crores during 1980-81 showing an increase of 42 per cent over the last year. The SLDB's share was higher at Rs. 7.7 crores (54 per cent) than that of the commercial banks at Rs. 6.4 crores (45 per cent), the balance of Rs. 0.1 crore being absorbed by the RRBs. Minor irrigation registered a marginal increase in drawals from Rs. 4.1 crores in 1979-80 to Rs. 4.3 crores during 1980-81. Drawals under plantation and horticulture amounted to Rs. 7.1 crores and accounted for 50 per cent of total, as against Rs. 3.3 crores during the previous year. A major portion of this year's disbursements (Rs. 4.2 crores) under this category was under the IDA-assisted Kerala Agricultural Development Project (KADP). During the year, an IRDP banking plan for one district with an aggregate refinance assistance of Rs. 1.0 crore was sanctioned, of which a sum of Rs. 2 lakhs was availed of.

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

Coffee Industry in Karnataka

KARNATAKA holds the key to coffee production in India. Although India accounts for only about three per cent of world production, Karnataka contributes about 70 per cent of India's production. The area under coffee and its production have been increasing over the past five or six years. The area, which was around 90,000 hectares in 1972-73, increased to 1,05,000 hectares by 1977-78; similarly the production, which was only about 73,000 tonnes in 1974-75, shot up to 1,20,000 tonnes in 1978-80. Approximately, the coffee area has been increasing by about 3,000 hectares each year for the past 5 years, while production has been rising by about 6,000 tonnes per annum. It should also be mentioned in favour of Karnataka that yields are the highest in the country. During 1977-78, the all-India average yield of coffee was only 650 kg. per hectare as against 836 kg. per hectare in Karnataka. The yields in Karnataka were 30 per cent higher than the all-India average. This confirms that a major area of future extension of coffee should be in Karnataka.

Although coffee occupies only one per cent of the gross cropped area in Karnataka, its contribution to the total value of agricultural output is to the extent of 11 per cent. A quick way of increasing State income is to extend the coffee area as far as possible. Nearly 25 per cent of coffee area in Karnataka is found in holdings up to 4 hectares. The next quartile is of holdings from 4 hectares to 20 hectares. The third quartile is between 20 to 80 hectares and the last quartile contains holdings of 80 hectares and above. This pattern of coffee area distribution, to a large extent, achieves a more equitable sharing of income. Production of coffee is not distributed in the same way as area. The first quartile accounts for only about 15 per cent of production, the second for 28 per cent, the third for 26 per cent and the last for the rest. The small holdings up to 4 hectares should strive hard to achieve the yield levels of larger holdings so that their share in production is directly proportional to their area.

Direct employment in coffee plantations is about 2 lakh persons over the present area of a lakh and odd hectares. Any extension in area would further increase the potential for employment. it is learnt that there is a proposal for expanding the area by another 29,000 hectares, generating additional employment for 60,000 persons. Of the 31 coffee curing works in the country, 16 are situated in Karnataka. They process nearly 65 per cent of the coffee production. As coffee production increases, it is imperative that either the present curing works expend their capacity or new curing works come into the picture. A curing works with a capacity of about 5,000 tons requires Rs. one crore by way of investment and provides employment to 500 persons throughout the year.

Although our yield levels are comparable to those obtained in many other coffee-growing countries like Brazil, Gautemala and Colombia, it is still possible to increase yields through better cultural practices. Countries like El Salvador, Costa Rica and Uganda obtain yields higher than the yield obtained in India. It is gratifying to note that among coffee growing States in India, Karnataka has registered the highest yield of 836 kg per hectare. But El Salvador and Costa Rica have achieved yields of 1,250 kg per hectare and 1,500 kg per hectare respectively.

There need not be any fear of a fall in the demand for coffee. FAO demand projections indicate that the demand for coffee will grow at the rate of 3.5 per cent per annum at constant prices. The Coffee Board itself estimates that the internal demand for coffee will reach 53,300 tonnes by 1982-83, from the present level of about 48,000 tonnes. Similarly, export demand will rise to 75,800 tonnes by 1982-83, from the present 64,600 tonnes. It is probably necessary to increase area under coffee in Karnataka by about 25 to 33 per cent of the present area. The incentives to be provided could be in the form of subsidised inputs, new planting subsidies, replanting subsidies, concessional taxation policies by both the Centre and the State.

India commands a prestigious position as a dependable supplier of coffee in the world market. Coupled with this, if productivity increases are obtained, there could be nothing more encouraging. The National Commission on Agriculture has recommended that the present area of 1.40 lakh hectares under coffee should be increased to 2 lakh hectares by 2000 A D. In other words, an increase of 60,000 hectares is envisaged in a period of about 20 to 25 years. But according to the Coffee Board, the area under coffee in the country was 1,92,248 hectares in the year1977-78 itself, which the Commission has targeted for 20000 AD. There is also a 1976 study 'Perspective Plan for Coffee Development' conducted by the National Council of Applied Econmic Research, New Delhi. This study indicated that an additional area of 1,30,000 hectares should be brought under coffee to meet the projected demand of 2 lakh tonnes by 2000 AD. It also suggested that 58,000 hectares of these expansion should be in traditional areas (Karnataka Kerala and Tamil Nadu) and the rest in non-tradititonal areas. — *Courtesy-UPASI.*

Southern Economist

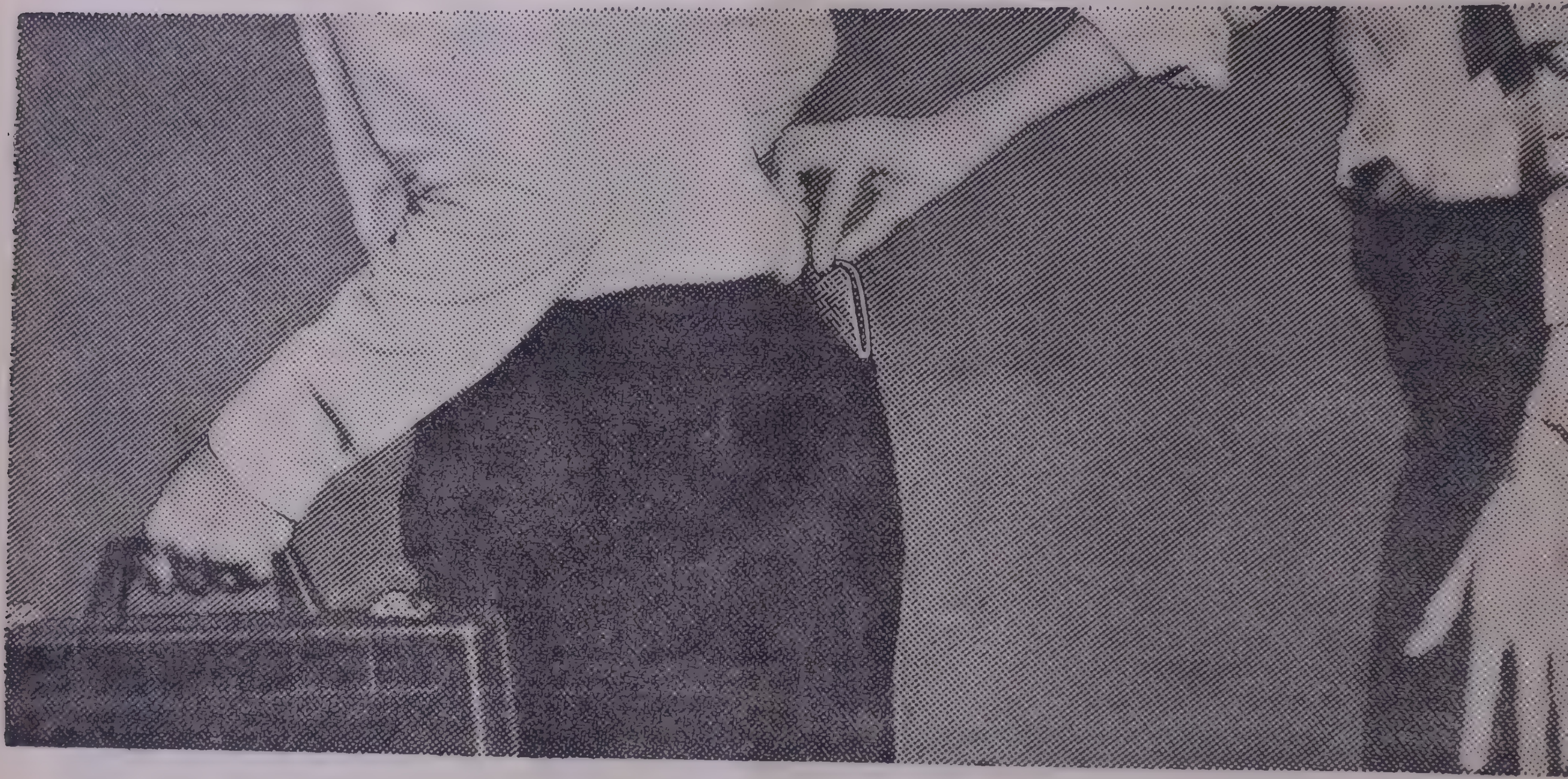
PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

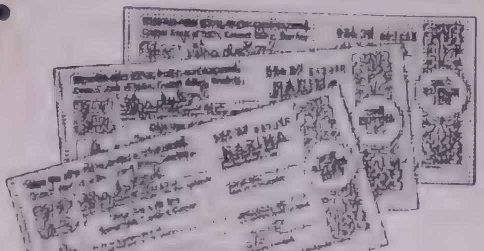
Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Carrying a lot of money? You're asking for trouble!



In denominations of
Rs. 100, Rs. 500 and Rs. 1000



The safe,
convenient way of
carrying big money
—or keeping it.

Play safe and carry SUPERMONEY

(CENTRAL BANK TRAVELLERS CHEQUES)

Supermoney Travellers Cheques are pilfer-proof. You put your signature on them in front of the issuing authority. When you want to encash Supermoney Travellers Cheques, you have to sign on them again before the paying official who checks whether the signatures tally. This ensures that only the rightful owner receives the money. If they are lost or stolen, you can get the money back from the issuing office, after usual formalities are completed.

Supermoney is not only safe but is also convenient. It is cashable immediately at any nationalised bank. It is also accepted at well-known shops, department stores, hotels, airlines and at important railway stations.

There is no time limit for encashing Supermoney. And, best of all, there is no charge.

Central Bank of India
A Government of India Undertaking
The bank that moves out to people and places.

RADEUS CBI 9-81

Supplementary Employment Schemes in Karnataka: An Evaluation

By O. D. HEGGADE *

THE co-existence of unemployment and underemployment of human labour as well as the paucity of capital resources and entrepreneurial skills are the universal problems confronted by all the developing countries of the world. The existence of underemployment implies the availability of work for shorter duration than the willingness of the labour as well as a type of situation-bound compulsion to engage their work force on the job or work which would demand labour services quite below the actual and potential efficiency or productivity. A large number of countries were confronted with the so-called population explosion or what C. D. Harries (1971) calls the "demographic revolution". The rapidly growing population of developing economies aggravate the problems of unemployment and underemployment.

Under successive Five Year Plans at the centre and in the States, employment opportunities have been created in the country. But, however, due to the population growth and lack of the required size of employment-orientation in Five Year Plans the level of unemployment and underemployment has been on increasing rate. Thus, employment insurance programmes have been implemented by some States in the country to supplement their main strategies of employment generation.

States like Maharastra (1972), Karnataka (1977 and 1979), West Bengal (1978) and Tamil Nadu (1980) have adopted various programmes for ensuring employment for both chronically unemployed and underemployed in rural/urban sectors of their economy's for at least a specified period of time in a year or in certain cases throughout the year. These programmes are called by various names—Employment Guarantee Scheme in Maharastra, Employment Assistance Programme in West Bengal, and Employment Affirmation Scheme and Stipendary Employment Scheme in Karnataka etc.

The implementation of programmes of 'Employment Guarnatee' in the recent past by various State Governments is taken up in part, in the recognition of 'Right-to-work'. The implementation of these supplementary programmes of employment creation denote the growing concern of these Governments about the wastage of vast size of human resources in the form of enlarging unemployment and underemployment. For the last few years in various states of the country, the chronically unemployed educated youth have been unionizing themselves, by demanding work opportunities from the Government. It is against this background that the detailed study of these Schemes in Karnataka is being undertaken here. The study is divided into five sections: Section I deals with the magnitude and composition of unemployed in the State and the origin of these supplementary employment programmes; Section II deals with the 'Full-Employment pledge' of the State Gavernment; Section III analyzes the working of two well-known programmes viz., Stipendary Employment Scheme and Employment Affirmation Scheme; Section IV gives the critical evaluation of the schemes; Section V arrives at conclusions.

Planned development in the State has resulted in generating considerable size of work opportunities for both skilled/unskilled as well as educated/uneducated labour force. However, the backlog of chronic unemployment and underemployment kept on increasing at the end of each five year plan. The data on unemployment and underemployment in the State show that the chronic unemployment has been associated with the working of State's urban economy and the sizeable underemployment could be found with the working of the State's rural economy; the educated unemployment has been at an increasing rate. The rural-urban distribution of chronically unemployed and underemployed as on 1971, in the State (data is based upon the 27th round of National Sample Survey) shows that as on 1971, about 2.01 lakh persons were chronically unemployed in the State. Out of this, about 1.26 lakh persons were in urban areas and 0.75 lakh persons in rural areas. The total level of underemployed in the State was about 3.75 lakh persons comprised of 3.34 lakh persons in rural areas and 0.41 lakh persons in urban areas, as on 1971.

Total educated unemployed persons increased from 1, 19, 303 as on December 31, 1970, to 3,23,592 persons as on March 1978. The Draft Plan (1978 83) also points out that "the number of educated persons on the Live Registers" has increased from 1.76 lakhs to 3.24 lakhs in four years,"[1] i. e., between 1974 and 1978. The size of unemployed post-Graduates has increased from 1,056 to 5,801 persons between 1970-77, further their number went up to 5,853 persons in March 1978. Between 1970-77, the unemployed graduate persons increased from 13,429 to 60,703 and to 62,143 persons in March 1978. The total number of unemployed matriculates and I. T. I. certificate holders has increased from 96,158 to 2,26,972

---

* Lecturer, Department of P. G. Studies and Research in Economics, University of Mangalore, Mangala Gangotri-574152., S. K. District.

The author is highly thankful to Dr. B. S. Sreekantaradhya M. A., Ph. D., Reader, Department of P. G. Studies and Research in Economics, B. R. Project, Shimoga and Dr. N. S. Bhat, Reader, Department of Economics, St. Philomena College, Puttur, S. K. for their valuable comments and suggestions on the paper. The author, of course is alone responsible for mis takes, if any, in the paper.

November 1, 1981, Rajyotsava Day in Karnataka. On this day, twenty five years ago, the State came into being.

VIKRANT—THE COMPANY

Vikrant marks a mile stone in the progress of Karnataka. A Rs 43 crore State managed project and one of Karnataka's largest industries, it successfully launched its products in May 1980 and now makes tyres for practically all types of Indian vehicles.

THE TESTED TYRE

Every tyre from its wide range reflects Vikrant's commitment to quality and durability—both assured by the kind of materials used, the design and the stringent quality control conditions under which the tyres are manufactured.

Before, during and after the process of manufacture over 180 check points, manned by uncompromising professionals, ensure that even the tiniest flaws are detected. Then, every tyre design is extensively road tested in gruelling Indian conditions. All of which lend credibility to the claim that VIKRANT is tested more than any other tyre

More & more discriminating customers from all parts of India, including State transport organizations and vehicle manufacturers, are now switching to Vikrant—over 3,50,000 tyres have already been bought.

Wheels of National Progress Karnataka's contribution-Vikrant

VIKRANT—THE RELIABLE TYRE

VIKRANT
TYRES LTD
K.R.S. Road Metagalli
Mysore 570 016

between 1970-77 and to 2,42,565 in March 1978 and 2,953 to 6,571 between 1970-77 and to 7,328 in March 1978, respectively. The total number of unemployed diploma holders has decreased slightly i. e., from 5,707 to 4,737 between 1970-77 but again suddenly reversed to the original level viz 5,703 by the end of March 1978. It is thus evident that the educated unemployment is growing at an unprecedented rate.

It is against this background that the Government of Karnataka decided to redress the grievances of chronically unemployed/underemployed persons and to make use of their services in the State's productive machinery. The Stipendary Employment Scheme (1977-78) and Employment Affirmation Scheme (March, 1979) have been introduced for this purpose.

The State of Maharashtra happens to be the pioneering State in the country in implementing special programmes of this kind for unemployed. It came out with a programme of employment guarantee scheme in 1972-73. Similar schemes were implemented in other States like West Bengal (1978) and Karnataka (1979) in the recent past. The main object of these schemes was to utilize the unharnessed manpower in creating community assets and to assist the development process.

Karnataka's Stipendary Employment Scheme as well as Employment Affirmation Scheme are necessarily the components of a broad-based 'minimum needs' programme of the State. During the slack season in agriculture, the landless labourers, small and marginal farmers are usually tend to be unemployed. This group of agricultural labourers and farmers are, to a greater extent, leading a subsistence life. These groups of labour force being almost unemployed in the slack season are faced with the problems of finding out alternative job opportunities. Moreover, their level of income would tend to fall during the slack season leading to a fall in their level of consumption and standards of living.

The basic objective of Employment Affirmation Scheme (EAS) is to arrest any such decline in the levels of consumption and standards of living of these 'weaker sections' of the population. The work opportunities made available through programmes like EAS., would stabilize their incomes and supplement their earnings to get rid of the shackles of poverty. Moreover, the efficient and appropriate utilization of vast reservoirs of unskilled rural labourforce could result in creating productive assets in our rural economy. This would further enable the rural economy to create work opportunities on more sustained path for the growing labour.

II

Rapid economic development and phased removal of poverty are the twin objectives of development planning in the country and Karnataka is no exception. The decade of 1970's has been a major landmark in the State's economy. During the decade, substantial progress was witnessed in the field of agriculture, irrigation and power, industry and infrastructure development and social welfare programmes, thanks to the development bureaucracy of the State Government. The State's Draft Plan for 1978-83 envisages a direct attack on poverty through the creation of substantial gainful work opportunities. On the basis of existing socio-economic overheads facilities, newly implemented socio-economic legislations and more resources forthcoming during 1978 88 decade, the Draft Plan (1978-83) contains a pledge of full-employment. It rightly recognizes the historical inevitability of making full-employment and rural development the central-threads of planning at the State level. To achieve this objective within the time span of 10 years, the Draft Plan postulates a growth rate of 7.5 per cent during 1978-83 and 9 per cent in the subsequent five years.

The employment policy for 1978-88 has reckoned the existing chronically unemployed and underemployed as well as the likely addition to labourforce. On the eve of the Sixth Plan, the State's estimated labour force was 120.51 lakhs. Out of this about 112 lakhs were engaged in various work opportunities. Hence, the total unemployed stood at 3.5 lakhs. However, between 1978-83, it is estimated that the addition to labour force would be of the order of 15.6 lakhs. This amply specified the need for generating 24.1 lakh work opportunities during the Sixth Plan period.

III

In this part of the paper, the working of the two well-known supplementary employment programmes viz., (1) Stipendary Employment Scheme (SES) and (2) Employment Affirmation Scheme (EAS) are discussed.

Stipendary Employment Scheme

The S. E. S , basically intends to utilize the knowledge, occupational skills and other servicing abilities of a variety of unemployed educated youth in a host of developmental activities. To seek the benefits under this scheme, the unemployed educated youth shall be a post-graduate and/or a diploma person or any other educated person of different disciplines, who has been on the roll of employment exchanges. Under this scheme, any individual belonging to a family, having an annual income of less than Rs. 3,600 with no earning member is eligible for benefit. The unemployed educated youth so identified is absorbed in certain type of developmental activities on a monthly stipend of Rs. 150 and posted within the taluk, as far as possible very close to his place of residence.

The State has sought to utilize the services of educated unemployed in various schemes like (a) Educational Schemes; (b) Rural Health programmes; (c) Improvement of Hospital Administration; (d) Rural Electrical Services; (e) Management of Co-operatives; (f) Extension Service for slum-dwellers; (g) Management Schemes for public Distribution System; (h) Other Schemes which are similarly useful. In addition to these programmes, the unemployed graduates and diploma holders are used as tourist guides and salesmen at some public corporations like Handloom corporation sales depots; the services of graduate engineers and diploma holders is also used in supervising and imparting expert knowledge in the construction work of Janata houses for the poor. The estimated expenditure, on this account, during 1978-83, is of the order of Rs. 15 crores. In the first year of the implementation of this scheme more than 7,000 educated unemployed persons were benefitted.

As meny as 33,327 persons have been identified as eligible and out of this 15,287 have been employed under the S.E.S., as an December 31, 1979. The Scheme has made substantial progress over a period of two years. However, the progress of the Scheme is rather lop-sided among various districts. Districts like Bidar, Chitradurga, Hassan and Tumkur have been quick enough to employ the eligible persons under the scheme but district like Bangalore, Belgaum, Chikmagalur, North Kanara, Gulbarga, Kolar, Mandya, Coorg, Mysore have made modest progress in this regard.

Employment Affirmation Scheme

To break the vicious circle of poverty and underdevelopment, the creation of gainful employment opportunities and their dispersal in favour of economically weaker sections is necessary. In order to achieve various development projects special schemes have been implemented under plans. The sizeable rural underemployed are employed first on the available job oppotunities generated from regular development activities. The backlog, if any, is considered for employment under E.A.S. The government of India have introduced 'Intensive Rural Development Programme' in 85 Taluks of the Karnataka State.

For implementing Small Farmers Development Programme, Command Area Development Programme, Drought Prone Areas Programme and so on, the Central Government has sanctioned Rs 5 lakhs additional financial assistance during 1978-79, for each tuluk or block well over and above the normal assistance for these programmes. The problem of underemployment is one of the problems of our State's rural economy. Hence, to provide gainful employment for at least 100 days during the agricultural slack season, the Karnataka Government has implemented the 'Employment Affirmation Scheme'. The expected beneficiaries from this schems are small/marginal farmers, landless agricultural labourers, rural artisons etc.

Under the Scheme, 100 days of manual work during slack season is assured for rural underemployed in the State. In 1979-80, E.A.S., was implemented in 45 Taluks or Blacks, out of 85 blocks of the State brought under Central Government's Intensive Rural Development Programme. The Draft Plan (1978-83), proposes to cover all the remaining 130 blocks by 1982, under this scheme. It also estimates the wage employment seekers under E.A.S., in 91 Taluks as 7 lakhs. The annual oost of previding jobs for 3.0 lakh persons for 100 days in the slack season is estimated to be Rs 16 crores-Rs 12 crores wages and Rs 4 crores, the capital of the scheme. A daily wage of Rs 4 originally, now being raised to Rs 5 is given for each person whe is employed on this scheme.

The Scheme has adopted the pattern of making payment in cash and kind. Two–thirds of the wages are paid in kind, i.e., wheat drawn from the 'food for work programme' of the Central Government and balance in cash. Thus the net burden on the State Is Rs 8 crores per annum to implement EAS. The Karnatake State has sought to employ the rural underemployed on technically and economically feasible labour intensive productive activities like, minor irrigation, desiting of tanks, and promotion of fisheries, soil conservation, Canals of Major and Minor Irrigation projects, Land Development, Afforestation, Rural Roads, Housing for the poor, village Sanitation and improving the 'Harijan Colonies' etc.

Sponsoring any of these programmes to provide employment for rural unemployed depends upon the availability of either fifty or more underemployed persons. The Village Panchayats have to announce at least one month earlier about the programme to be sponsored. The Deputy Commissioners of the districts are in-charge of implementing these schemes and they will also select the programmes and the locations of their implementation on the basis of local resource endowment and other planning considerations. During the March-June 1979 slack season the E.A.S. has benefitted about 2.86 lakh persons in the State. The cost of implementing this Scheme is Rs 172.55 lakhs as cash component and 18.86 thousand tonnes of foodgrains as kind component leading to the generation of 69 lakh mandays of work. The districts like Tumkur, Raichur, Chitradurga, Bijapur, Belgaum, Bangalore, Dharwar, Shimoga, Mysore, and Kolar have made some progress in utilizing the labour services of rural underemployed; in other districts, the programme is yet to gather momentum.

IV

The Stipendary Employment Scheme (S.E.S.) and Employment Affirmation Schemes (E.A.S.,) are working in Karnataka for the last two years. The Stipendary Employment Scheme has made uneven progress among the various districts of the State. The inordinate delay. lack of follow-up action, and definitive direction and guidance are some of the factors attributed for the modest and not-upto-the-mark performance of the scheme in various districts of the State.

The Developmental bureaucracy at the taluk, district and State level should understand and appreciate the social relevance of the scheme and make all possible efforts to implement the scheme. Lack of understanding of the social relevance of programmes like SES leads to inadequate response and intiative on the part of administrators and officials, which, if not eliminated, may ultimately undermine the importance of the Scheme itself. Therefore efforts have to be made to eliminate the administrative lacunae and other inadaquacies in implementation of programmes like S.E.S.

During 1978-79, the backlog of educated unemployed was of the order of 3.24 lakhs out of which about 33,327 persons were identified as eligible for benefits under SES. The small size of eligible educated persons estimated for this purpose is rather startling and grossly underestimates their size. As more than 50 per cent of our population is living below the poverty line, the norm used to identify eligible persons for benefitting from SES are highly rigid. The norms of identification of eligible persons are rigid in the sense that (1) there are only a relatively small number of rural/urban households with an income of less than Rs. 3,600 per annum with no earning member in the family; (2) there are quite a few lakhs of low-paid government servants, thousands of petty businessmen, domestic servants etc., whose annual income either slightly or modestly exceeds the income celing of Rs. 3,600 per annum which may not enable educated rural/urban unemployed belonging to this group to seek unemployment insurance provided under SES. Thus, this limit precludes the educated unemployed persons belonging to this large category from getting any benefits from programmes like SES.

The poverty level of different social sub-groups of the broad category of 'Backwards and Rural-Urban Poor' varies substantially. Moreover, the unemployed and poverty-stricken mass cannot sustain the onslaughts of current inflation. So, a modest rise of the income celings and the stipendary amount would definitely increase the total number of eligible persons, number of beneficiaries and their consumption standards. A revised programme of SES would definitely become more desirable and socially meaningful.

The lopsided progress of SES is also due to lack of vision, lack of ability to identify the areas on which educated unemployed manpower could be better employed and also lack of information dissemination between different administrative and development departments and the employment exchanges in the State for the speedy absorption of the unembloyed educated youth. To ameliorate this condition, the 'District Planning' machinery shall have to play a very dynamic role in activizing the employment exchanges and other departments.

Karnataka's Employment Affirmation Scheme more or less resembles the 'Rural Works Programme' of Government of India being implemented during the III Five Year Plan and subsequently discarded in favour of the other supplementary employment programmes in the country. The programme of EAS has yet to gather momentum in various districts of the State. Though the Draft plan laid down broad areas of activities in which the rural underemployed could be employed, still the progress of EAS has been lopsided among various districts of the State. The EAS programme has been confronted with a number of implementational problems. The decision-making about the selection of projects and their location and initiating tne choosen work project has been vested with the Deputy commissioner's of the districts.

The Deputy Commissioners being already overburdened with the large number of functions and responsibilities of general administration and development of the district have to shoulder the responsibility of implementing EAS programme in the relative absence of feed-back information to make rational decisions about identifying the work project, location, determination of workforce required for the project and mobilizing the scattered underemployed rural labour.

V

The ever increasing unemployment and underemployment lead to the wastage of human resources and also accentuate the level of poverty and underdevelopment. The concentration of unemployment and underemployment to a greater degree in urban and rural components of Karnataka's economy stress the need for a rational development strategy to maximize the work opportunities in the State, in the decades to come.

The implementation of supplementary work schemes like SES and EAS would further strengthen the forces of conflict in Karnataka. The programmes of S.E S., and E A.S., have made modest progress in the State over a period of last two years. However, the benefits under both the schemes have spread unevenly among different districts. The number of eligible persons may be increased to seek benefits under the programme of S.E S., by thoroughly modifying the eligibility norms of the scheme. An attempt at widening the scope and objectives of the programmes of S.E.S. and E.AS. along the lines suggested in this paper would definitely enhance the total number of beneficiaries and the schemes may result in creating sizeable quantity of community assets and reproducible wealth in Karnataka's rural and urban sectors of the economy.

INDIA—THE TURBULENT HALF-DECADE

BY K. N. SUBRAHMANYA

(200 pages : Price Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first year's record.

SOME OPINIONS

Subrahmanya's strong point is that he writes as an observer and not as a protagonist of this or that party or group. —*Commerce*

His style is unostentatious, his approach dispassionate and his logic forcible. —*Capital*

He has stated certain unpalatable facts. —*Patriot*

There is much to ponder in this little book. —*The Mail*

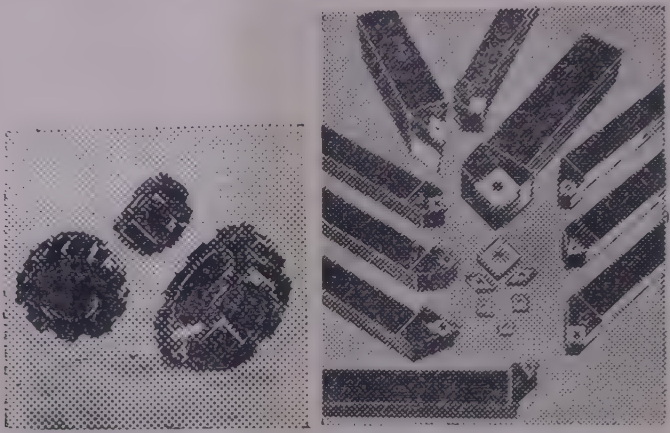
The book gives an in-depth and impartial analysis of recent political events. —*P. I. B. Nayar, Journalist, London*

You have made many thought-provoking points.—*N. A. Palkhivala*

Since long, we have not come across such an objective review of the Indian political scene.
—*Dr. Susheela Gosalia, Author, Mannheim, West Germany.*

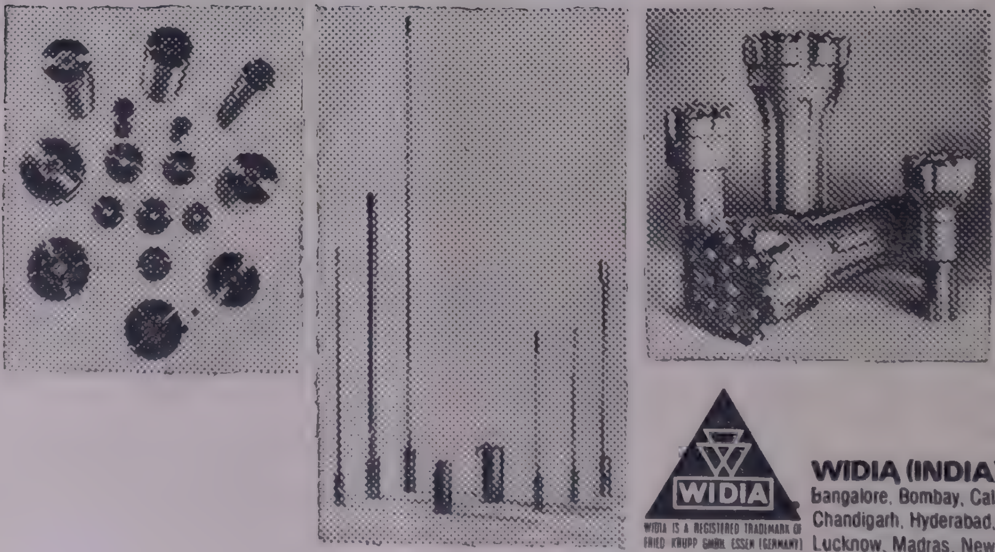
Copies can be had from: **Southern Economist,**
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

Tools for metal cutting, metal forming and mining



WIDIA

Tungsten Carbide Technology



WIDIA IS A REGISTERED TRADEMARK OF FRIED. KRUPP GMBH, ESSEN (GERMANY)

WIDIA (INDIA) LIMITED.
Bangalore, Bombay, Calcutta
Chandigarh, Hyderabad, Jamshedpur,
Lucknow, Madras, New Delhi and Poona

WIDIA –*leadership through technological breakthrough*

CAS-WIL-8125

Public Expenditure in Karnataka: An Analysis of Recent Trends

By V. S. ANGADI *

ONE of the important objectives of planning, both at the State level and at the Central level has been to reduce imbalances and achieve regional balance in economic development. Public expenditure, if properly designed, will go a long way in achieving this important objective of reducing imbalances in the various regions of the State. Expenditure pattern of the State reflects the degree of development achieved. It is not possible in this small article to make a detailed analysis of public expenditure in Karnataka. Therefore, a general survey of growth of public expenditure on economic development and social services with special emphasis on administrative expenditure is attempted here.

Under developmental services, agriculture and allied services, industry and minerals, water and power development, Transport and communication and general economic services are included. Under social services, education, art and culture, medical services, health services, social security and welfare, labour,employment, urban development, natural calamities and others are included. A detailed analysis of these two items is not attempted as it does not fall within the scope of this paper.

Between 1971-72 and 1980-81, expenditure on economic development has increased by more than 500 per cent and expenditure on social services has increased by about 400 per cent. The non-development expenditure has registered an increased of more than 300 per cent during the same period. The developmental and social expenditure as a proportion of total expenditure has moved in an interesting manner. During 1972-73, development expenditure as a proportion of total expenditure declined to 24 per cent compared to 26 per cent in 1971-72. Thereafter, from 1973-74 to 1976-77, it has continuously increased from 28.19 per cent to 33.57 per cent. During 1977-78 and 1978-79 it has remained constant at 32 per cent. Between 1979-80-1980-81, it has again increased to 34.57 per cent and 34.99 per cent respectively. Expenditure on social services increased from 33.64 per cent in 1971-72 to 34.89 per cent in 1972-73 and 38.08 per cent in 1973-74.

Thereafter, it has remained constant at 37 per cent between 1974-75 to 1977-78. Then it again declined to 36.44 per cent in 1978-79 and increased to 36.57 per cent in 1979-80. During 1980-81 it again declined to 33.89 per cent. But however, it is evident from the table that expenditure on social services both in terms of proportion of total expenditure and per centages increased at a faster rate compared to expenditure on economic development. This indicates that the concept of social justice finds a higher priority during the decade 1971-72 - 1980-81 which is a welcome trend.

A still better way of analysing expenditure on economic development and social services is to work out the per capita expenditure on these items. This is worked out as could be seen from the following Table.

It can be observed from the following table that the *per capita* expenditure on economic development has constantly increased from Rs. 20.6 in 1971-72 to Rs. 90.9 in 1980-81. This appears to be quite justifiable in view of the developmental activities undertaken in the State. We find a similar trend in the case of social and community services. Proper attempts seem to have been made by the Government in achieving economic growth on the one hand and social justice on the other. This is evident from the fact that the *per capita* expenditure on social services has increased from Rs. 26.2 in 1971-72 to Rs. 87.9 in 1980-81. This increase in *per capita* expenditure on social services may be attributed to an increase in the large number of welfare activities initiated by the Government. But what is alarming is, even the *per capita* expenditure on non-developmental activities has considerably increased from Rs. 31.1 in 1971-72 to Rs.80.7 in 1980-81. This is not desirable and hence needs to be checked in the years to come.

Let us now analyse the administrative expenditure in relation to the total Government expenditure between 1972-73-1980-81. Expenditure on general administration has increased by 300 per cent between 1972-73 - 1980-81.[1] The highest administrative expenditure is being accounted for by the seventh item, namely, pension and Miscellaneous services, which over the period has increased by more than 500 per cent, followed by

PER CAPITA EXPENDITURE ON ECONOMIC DEVELOPMENT, SOCIAL SERVICES AND NON-DEVELOPMENTAL EXPENDITURE

(In rupees)

	71-72	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81
a) Economic Devt.	20.6	20.7	33.1	36.9	43.5	51.2	52.4	62.00	78·3	90.9
b) Social Sevices.	26.2	29.1	44.7	43.4	49.9	57.2	61.00	69.06	82.9	87.9
c) Non-Devt. expenditure.	31.1	33.5	39.5	36.3	40.9	44.1	48.02	59.05	65.4	80.7

---

*Mr. V.S. Angadi is Deputy Director (Economics & Planning) Administrative Training Institute, Lalithamahal Road, Mysore-570 011.

[1] Item wise expenditure on Administration for the year 1971-72 were not available. Therefore analysis of administrative expenditure is confined to 9 years from 1972-73 to 1980-81.

Police, (a little more than 300 per cent). The expenditure on jails, treasury and accounts and Stationery and Printing has gone up by a little more than 200 per cent. Expenditure on public works and other items is roughly worked out at 62 per cent.

There has been a gradual increase in the administrative expenditure of all the items. However, expenditure on public works has moved in an interesting manner. The expenditure incrued on public works administration which was of the order of Rs. 423.89 lakhs (4.30 per cent) in 1972-73, declined to Rs. 412.51 lakhs (3.40 per cent) in 1973-74. It further declined to Rs. 141.56 lakhs (1.25 per cent) during 1974-75. From then again it increased to Rs. 226.27 lakhs (1.73 per cent) in 1975-76, to Rs. 399.47 lakhs (2.79 per cent) in 1976-77. It declined considerably to Rs. 240.18 lakhs (1.50 per cent) during 1977-78. Between 1978 to 1981, it has more or less remained constant. The large expenditure on public works administration during 1972-73 & 1973-74, could be attributed to vast expansion of works undertaken and the higher fixed costs.

However, this erratic fluctuation in administrative expenditure on public works needs to be further examined. The increase in administrative public expenditure on pension and miscellaneous service from Rs. 1009.63 lakhs in 1972-73 to Rs. 5497 lakhs in 1980-81 appears to be justifiable in view of the social welfare measures introduced in the state. But, however, the word miscellaneous seems to be a little misleading. Though public expenditure on Treasury and Accounts administration has increased from Rs. 94.25 lakhs in 1972-73 to 246 lakhs in 1980-81, in terms of percentages to the total expenditure, it has declined from 0 95 to 0.88, during the same period. Between 1974-75 to 1978-79, it was above 1 per cent. Though the work-load of the treasuries has tremendously increased over the years, (as they have been entrusted with the additional task of dusbursement of pension etc) it is surprising to see that the expenditure incured on it has declined.

Let us now look at the distribution of administrative expenditure. Here an attempt is made to work out the *per capita* expenditure on various items. The *per capita* expenditure on all the items during the priod under consideration has constantly increased. But the *per capita* administrative expenditure on police and pension and miscellaneous service is greater compared to all other items. Expenditure on police is incurred for maintaining law and order in the state. This might probably be one of the reasons for such an increase of *per capita* expenditure on police. Could it also be attributed to the alarming law and order situation in the state? Anyway, such a significant rise in the *per capita* expenditure on police compared to other items is not a welcome sign. Looking to the expenditure on police, expenditure incurred on jails appears to be reasonable.

Per capita expenditure on general administration and district administration has also gone quite high. This is partially because of the revision of pay scales and increased Dearness allowance paid to the government employees from timeto time. It is however, open to argument whether an expansion by about 900 per cent in expenditure on social and developmental activities during 1972-73—1980-81, justified an increase of a little more than 500 per cent on general administration and district administration put together. It can be observed that the ratio of expenditure on administration in relation to social and economic development in the state during the period under consideration is on the higher side. Therefore attempts need to be made to control this kind of expenditure.

Now let us try to analyse the growth of expenditure on collection of taxes in the state. Here we include expenditure on collection of taxes on income and expenditure, collection of taxes on property and capital transactions, collection of taxes on commodities and services and other fiscal services. It is quite natural that the expenditure on collection of taxes would increase as the quantum of tax and the tax base increase. With more and more of taxes being imposed, there would be an addition to the collection of taxes. There has been a five fold increase in expenditure on collection of taxes on income and expenditure. Expenditure on the collection of taxes on property and copital transaction has almost doubled during the same period. There has been a 2½ fold increase in the expenditure on cost of collection of taxes on commodities and services.[2] In the initial period, the cost of collection of taxes to tax yield was higher. For example during 1972-73, the cost of collection of tax of one rupee was about 8 paise. This might be explained in terms of higher initial fixed costs of collection (1972-73). Thereafter, because of the operation of economies of scale, the cost of collection of tax has declined to 6 paise per rupee in 1973-74. It is very interesting to note that the cost of collection has constantly remained at .5 paise per one rupee between 1974-75 and 1980-81.

During the period under review, there has been an expansion by about 900 per cent (between 1971-72 to 1980-81) in expenditure on social and developmental activities accompanied by an increase of little more than 500 per cent in expenditure on general administration and district administration put together. The *per capita* expenditure on non-developmental activities which has increased from Rs. 31.1 in 1971.72 to Rs. 80.7 in 1980.81 has almost kept pace with the increased per capita expenditure on economic development from Rs. 20.6 in 1971.72 to Rs. 90.9 in 1980.81. This does not appear to be very sound. Therefore, expenditure on administration in relation to developmental activities needs to be controlled. The erratic fluctuations in expenditure on public works administration need to be further examined. With respect to the growth of cost of collection of taxes, the proportionate increase in the cost is lower than the proportionate increase in the yield and hence the ratio of cost of collection to tax yield has shown a declining trend. It is interesting to note that from 1974-75 to 1980-81, this ratio has remained constant. There does not seem to be any possibility of further reducing this cost of collection. The present cost of collection might be considered the optimum cost of collection.

---

[2] See 'A picture of Karnataka Budget', (Issues from 1972-73 to 1980-81).

Tourism Development in Karnataka — New Vistas and Strategies

By T. P. ISSAR *

THE current planning for tourism development in Karnataka is based on two broad principles, (a) selective approach to certain known tourist circuits so as to achieve the optimum results from investment of available resources and (b) giving special attention to the stimulation of domestic tourism so as to achieving a substantial increase in the number of foreign arrivals.

In spite of being a rather big-sized State, Karnataka has a fairly even distribution of its rich endowments of tourist attractions. the Government of Karnataka, in consultation with Government of India, has identified two broad tourist circuits, one in its Northern parts and the other in its Southern half. It is along these circuits that the State Government, with or without Government of India's assistance, will be largely concentrating in its deployment of resources for creating the required infrastructure for tourism.

An essential part of this tourist circuits plan is the setting up of airstrips at locations like Bijapur, Hospet, Mysore and Hassan. With the existing airports at Bangalore, Mangalore and Belgaum, the two circuits can be made operational so as to cover practically the entire State, leaving out very few of its known attractions. The Northern Circuit will link Goa and Belgaum with Bijapur and Hospet. Groups travelling in small crafts can either fly back to Goa and Bombay or extend their trip to the Southern circuit. In this way, the Northern circuit will cover, partly by air and partly by surface transport, Bijapur–Badami-Pattadkal-Aihole and Hampi. The Southern circuit, starting from Bangalore, will cover Mysore, the wildlife sanctuaries of Bandipur and Nagarhole, Madikeri, Mangalore and the West Coast beaches as also Halebid Belur and Sravanabelagola. The tourist development plans drawn up by the State Government are meant broadly to mesh with these two broad circuits.

It is along these circuits that that wayside facilities are being set up at distances ranging from 60 to 100 miles so that toruists travelling by surface transport can break their journey at convenient points and refresh themselves. Each such wayside facility is being planned so as to become a pleasant inn, surrounded by a garden and affording restaurant facilities as also facilities for overnight stay. In many of those facilities, it is proposed to provide petrol pumps as also servicing facilities for vehicles. Apart from the washrooms attached to the restaurant and the rooms, each such place will have a public washroom which any traveller will be free to use, regardless of whether he uses the available inn facilities.

Apart from wayside facilities mentioned above, which are being located at selected points on the Bangalore-Poona road, Bangalore-Mysore road, Mysore-Bandipur road and Bangalore-Hassan road, a number of picnic resorts are being developed around Bangalore and the facilities at the nearby hill stations of Nandi Hills are being considerably upgraded. A small tourist complex is planned at Hesarghatta and the small hill above Devarayanadurga near Tumkur is being surveyed for a tourist resort of bracing air and breath-taking beauty. The famous Banyan Tree off the Mysore Road and the Pearl Valley near Anekal will soon have attractive and well-equipped facilities for tourists and weekend visitors from Bangalore to meet a keenly-felt need. A restaurant is being set up at the popular Banneraghatta Lion Safari Park.

In regard to the transport facilities for tourists, the State Tourism Development Corporation (KSTDC) which looks after this part of the tourist infrastructure in the State, is now geared more than ever to give to the tourist public a wide choice of package tours. With a fleet strength approaching 30 vehicles and with the prospect of acquisition of another at least 10 vehicles during this year, as also at least 10 more air-conditioned vehicles during the coming year, the Corporation can soon regard itself as exceptionally well provided in this behalf.

The existing string of about 15 hotels maintained by the Tourism Development Corporation were upgraded during the last year at considerable expense, both as regards equipment and trained staff. Each such hotel is now a sparkling facility, proudly bearing names like Adil Shahi, Barid Shahi, Hoysala, Chalukya and Nethravathi. Efforts are all the time afoot to further upgrade and standardise their service in catering.

Karnataka has, by and large, been taking its tourist attractions for granted—which, in these days of growing international competition in a hugely paying industry like tourism, hardly any country or State can afford – not even a richly endowed State like Karnataka, with its great heritage of history, art, and architecture, its handicrafts, its remarkable wildlife sanctuaries, its hill stations of breath-taking beauty and its highly-rated beaches besides its well-deserved reputation as a shoppers' paradise.

The State Tourism Development Corporation is now poised to make an energetic entry into the leave travel concession area of tourist operations, encouraging facilities to get away for a while and to begin by seeing all that Karnataka has to offer before their appetite is whetted and they are launched on the wholesome tourism habit. There is nothing like tourism as a refresher and for widening one's outlook as also promoting national and international integration.

---

* Mr. Issar is Chairman and Managing Director of the Karnataka State Tourism Development Corporation Ltd.

INDIAN COFFEE INDUSTRY

Indian Coffee, distinctive and delicious, gets its special aroma from the rich soil, climate and culture of India.

Nurtured on the shaded slopes of the Western Ghats, with its spure extending Eastwards, Indian Coffee is grown under ecological conditions ideal for the growth of the finest coffee.

Coffee in India covers 1,96,228 hectares and accounts for 95,297 estates. Of this 93,215 are small holdings below 10 hectares and 2,019 are above 10 hectares. These estates employ 2,54,795 daily workers.

The Coffee Board works for the growth and development of the Indian Coffee Industry. The Central Coffee Research Institute is located in Balehonnur of Chikmagalur District of Karnataka State. The Research Department has helped considerably in the scientific growth of Coffee Plantations.

AREA UNDER COFFEE

State	Arabica (Hectares)	Robusta (Hectares)	Total (Hectares)
Karnataka	69,238	36,206	1,05,444
Tamil Nadu	26,357	4,747	31,104
Kerala	3,233	52,921	56,154
Andhra Pradesh, Assam Orissa, W. Bengal, Andamans, Madhya Pradesh and Maharashtra (Experimental Plantations)	3,339	187	3,526
	102,167	94,061	196,228

India's estimated production of excellent coffee is about 1,60,000 tonnes.

Coffee that is grown has to be processed or cured. There are 31 Coffee Curing Establishments in the country. A whole range of operations in the country contribute to the quality of INDIAN COFFEE. Careful picking of the Coffee fruits, scientific processing, curing done to set standards, and quality assessment leads to export of only the best coffee beans.

Coffee exports during 1980-81 realised foreign exchange worth 202 crores of rupees.

Current efforts are aimed at increased production in traditional areas and bringing non-traditional areas under coffee, thus ensuring adequate supplies to meet increasing trends in exports and international consumption of the future.

COFFEE BOARD, INDIA

Role of Private Managements in Higher Education in Karnataka

By H. BASANNA *

PRIVATE managements in India have been playing a crucial role in the field of education. In Karnataka, private managements occupy a central place in the field of higher education. It is worth analysing the growth of the managements as well as positive and negative effects of their growth and remedial measures needed to put them on the track in the desired direction.

Karnataka has witnessed phenomenal growth of higher education in the post independence period, particularly during the 1960's, and the 1970's. Many places which did not have even secondary education — during forties and fifties have gained a status on the map of higher education in the state. One striking feature of higher educational development in Karnataka is the predominant and commanding position of private managements. They are the pioneers in this field and masters of the situation. Their institutions almost cover the entire educational territory of the State and the government institutions look like isolated islands in a vast sea of private management institutions. It was the missionary zeal, patriotic spirit, service based on sacrifice of dedicated and devoted men, and munificient donations that were at the root of the growth of higher educational institutions sponsored by private managements. These institutions cover all faculties such as general courses, home science, engineering, law, medicine—indigenous as well as modern systems — and teachers' education. Agricultural education alone has remained unexplored by the private managements.

The private managements holding institutions of higher education can be broadly classified into three categories viz., (a) Single college managements; (b) Managements having colleges with only general courses and (c) Managements having colleges with all faculties. Single college managements are mostly located in taluka and rural places. The other categories of managements have colleges in the urban and rural areas. The third category of managements has grown to the size of a University in terms of faculties, institutional complex, infrastructure, administrative set up, number of employees and the magnitude of their budget. Though most of these institutions were originally piloted by major communities, of late, minority communities have also entered this arena.

The private managements in the field of higher education in Karnataka have achieved a good deal: (1) The task of the government in spreading general education at the collegiate level in many places has been fulfilled by private managements. But for the initiative and entrepreneurial spirit of the private managements, it would have taken several decades for the state to achieve this task. (2) The development of technical education in places which cannot be covered by the state has been taken up by private managements. (3) Establishment of colleges by the managements in various places in the State has helped in the utilisation of locally available resources, which would have remained unused and misused. (4) The private managements have been acting as trustees of the property donated by many philanthrophists and have employed such resources for the spread of higher education. (5) By establishing colleges in the urban and rural areas, employment opportunities have been created to several young men and women.

(6) By building institutional complex, selecting and collecting men with higher educational qualifications as well as stationing them in places which have not seen the light of the day the private managements have created harbingers of cultural and intellectual revolution. (7) The starting of colleges in the urban, semi-urban and rural areas helped in creating a new socio-economic environment. (8) By employing men coming from various parts of the state, as well as from other states, an environment has been created for promoting national integration and new social culture. (9) By drawing men from all communities, categories, castes crafts etc., the managements have helped the state to move in the direction of achieving social equality. (10) By spreading education in the breadth and width of the state, covering all sections, the managements have helped in creating social awakening among the under privileged sections.

The activities of the private managements in the field of higher education in Karnataka have their negative side also. (1) Owing to their efforts, the state has witnessed a mushroom growth of institutions. Some of them are not economically viable. Some have no justification for their existence teking into account the hinterland that they serve. (2) The field of higher education has been vitiated by an unhealthy competition which in turn has given birth to some institutions based on political considerations. (3) This sector is plagued with unhealthy practice such as malpractices in examinations, (4) Some managements are functioning like family concerns where the employees are treated as serfs of the middle ages. (5) Some managements are under-paying the staff even after the introduction of the scheme involving payment of salaries of the private aided colleges by the government.

(6) Corrupt practices in the recruitment have crept in, resulting in the selection of sub-standard candidates. (7) The educational standards have deteriorated due to the cumulative effects of many of the negative effects. (8) The most dangerous cancer effecting the field of higher education in private

---

* Dr. Basanna is Principal, G.B.R. College, Hadagalli, Bellary Dist.

sector is the system of capitation fee as a means of admission into engineering, medicine, teacher education and pharmacy colleges. These institutions are producing corrupt and substandard doctors, engineers, teachers, and pharmacists. Further, these institutions are functioning as 'foreign enclaves' on the Karnataka soil because most of the seats are sold out to outsiders. They have also pushed the teachers in the directions of corrupt practices.

Upto 1977, managements were meant to mobilise resources, involve dedicated and devoted men in the constructive work, identify men with ability and place them in responsible positions. Managements consisted of mainly people with development-oriented mind. Political affiliations were not allowed to operate in the affairs of the management. However, the introduction of the new salary scheme by the State government has altered the concept of management from "authority with responsibility to authority without responsibility". The composition of the managements has also changed due to infiltration of politicians and opportunist elements who have no regard for good work and social service. Managements have been politicalised and are also beset by groupism.

It is the opinion of the majority of the employees as well as some sections of the society that the colleges in the private sector should be nationalised. In fairness, it must be made clear that this remedy could prove to be worse than the disease. The remedy lies in eradicating the evils that are blighting these institutions. The managerial talents and the resources of the private sector would go waste if its institutions are nationalised.

1. There should be a strict moratorium on starting of new colleges for at least one decade to come. Consolidation of the existing institutions rather than starting of new institutions should be educational policy of the state.

2. Since the field of education is suffering from a mushroom growth of institutions, the consequent deterioration in standards of education and debasement of the value of degrees, it is imperative that the universities alone should have the right to decide the number of colleges and their location. No political influence should be allowed to operate in the creation of any type of new colleges.

3. There should be proper coordination between the universities, managements, and the Directorate of Collegiate Education. Norms prescribed by the University should be implemented in letter and spirit by the managements. The directorate should help and guide the managements implementing the policies of the Universities.

4. The involvement of the managements and the public in the development of the universities is a necessity. The managements should help in channelling public donations for the development of universities. Our universities can develop and become self-sufficient if they can mobilise public donations through the managements.

5. The resources of the private managements should be utilised fully by permitting them to start P. G. Courses in some selected colleges. This policy helps in achieving decentralisation of University education besides providing the managements a new avenue and a field of activity.

6. The managements which have financial responsibility to develop the existing under-graduate colleges, can be vested with the responsibility to develop university education. This step fills in the gap in the policy of faculty improvement programme which is operating in respect of faculty members of the degree colleges. This scheme has provided an opportunity to the faculty members of degree colleges to improve their qualification without chances to improve their academic career and monetary prospects. Starting of P. G. Courses in selected affiliated colleges paves way in absorbing such qualified men and promoting research on regional problems.

7. The property of the managements should be put to the best use in promoting society interests. Adequate representation should also be provided to employees in the affairs of the managements. It is necessary to discourage the managements from collecting abnormal amount of capitation fees. Funds so collected should be channelled for the development of the institutions. Sick colleges (not viable ones) as well as mismanaged colleges should be handed over to good managements.

8. A radical change in the attitude of the managements towards their employees is necessary to win their co-operation and goodwill as well as maintain cordial relations. Exploitation in payments, if any, should be stopped forthwith. The attitude of harassment should be replaced by a policy involving respect for the work of the employees. On the part of the employees also, there is need for involvement in the development of the institution. This is possible only when the managements create cordial and congenial atmosphere as well as a sense of confidence. It is also necessary to provide free education in the institution of the managements for the children of their employees.

9. On the part of the government it is necessary that all rules and regulations and service conditions applicable in government service should be extended to the employees of private management colleges. The government should direct the managements to implement its policies in letter and spirit.

10. There is a need for a comprehensive policy for higher education in the state to guide the institutions of higher education in the private sector. There is an urgent necessity to review the agreement entered between the managements and the government in 1977. Many problems that have come to the surface due to the operation of the new salary scheme should be examined thoroughly and immediate steps need be taken to tackle them.

Subscribe to :

SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign :* 15 Dollars)
surface mail

Fifty Years of Family Planning in Karnataka

By G. B. VENKATESH MURTHY and K. PRABHAKAR

IT is a matter of pride for the Karnataka State that Family Planning activities was first introduced as early as 1930 by the then Maharaja of Mysore when two officially sponsored family planning clinics were opened; one in Vanivilas Hospital, Bangalore and the other at Cheluvamba Hospital, Mysore. These are said to be the first official family planning clinics in the world. These clinics were started with the objectives of providing family planning advice to couples who ask for it for spacing purpose and the methods that were available were Jelly, foam tablets, diaphragms and condom (Nirodh). There was no expansion in the programme till the National Family Planning programme came into being during 1952.

When the Government of India initiated five year plans for the overall development of the Nation, the family planning programme became an integral part of the planned development. With the proclamation of the National Family Planning Programme in 1952, a training centre was set up in Ramanagarm, Bangalore district. Subsequently a number of family planning clinics were opened and in the successive five-year plans the programme has found considerable expansion and intensification. During 1956, the sterilisation services were introduced. These were offered free of charges as a limitation method. A small cash incentive was offered to acceptors of terminal methods as a sort of compensation for the loss of wages sustained for few days because of the operation.

In 1962, there was a change in the programme strategies from one of clinic approach to that of an extension approach. In the latter method the message of family planning is to be carried to every eligible couple; necessary group of community support of the small family norm built by the workers, and contraceptive services were made available to each and every eligible couple in a socially and psychologically accepted manner. IUD was introduced in 1965 as a safe method. Subsequently the Government of India took steps to provide an organisation structure of the programme throughout the country. Accordingly in Karnataka, an officer of health was exclusively appointed for organisation and effective implementation of the programme in each district. At present an elaborate organisation exists right from the grass-root level to the cabinet level for proper guidence and co-ordination. Thus at present the family planning services along with health services are being provided to people at their door-steps in rural areas through Primary Health Centre, Primary Health Unit, and Sub-Centres, and through Urban Family Welfare Centres, hospitals in urban areas.

In rural areas, sub-centres form the grass-root level unit to privide family planning and MCH services for every 10,000 population. The sub-centre is staffed by an ANM (Auxiliary Nurse Midwife) assisted by an attendant who cater to the needs of health and F. P. services in her area. There is one Primary Health Centre (PHC) for approximately 1,00,000 population and it is staffed with a Medical Officer, Lady Medical Officer, Block Extension Educator, Lady Health Visitors, Family Planning Health Assistants, Health Inspectors, Pharmacist and a few clerical staff. However, with an introduction of multipurpose workers scheme (MPW) the population per worker varies from region to region depending upon the geographical location. Under MPW Scheme every worker is expected to motivate eligible couple for acceptance of family planning along with health work. In urban areas there is one family welfare centre for approximately 50,000 population.

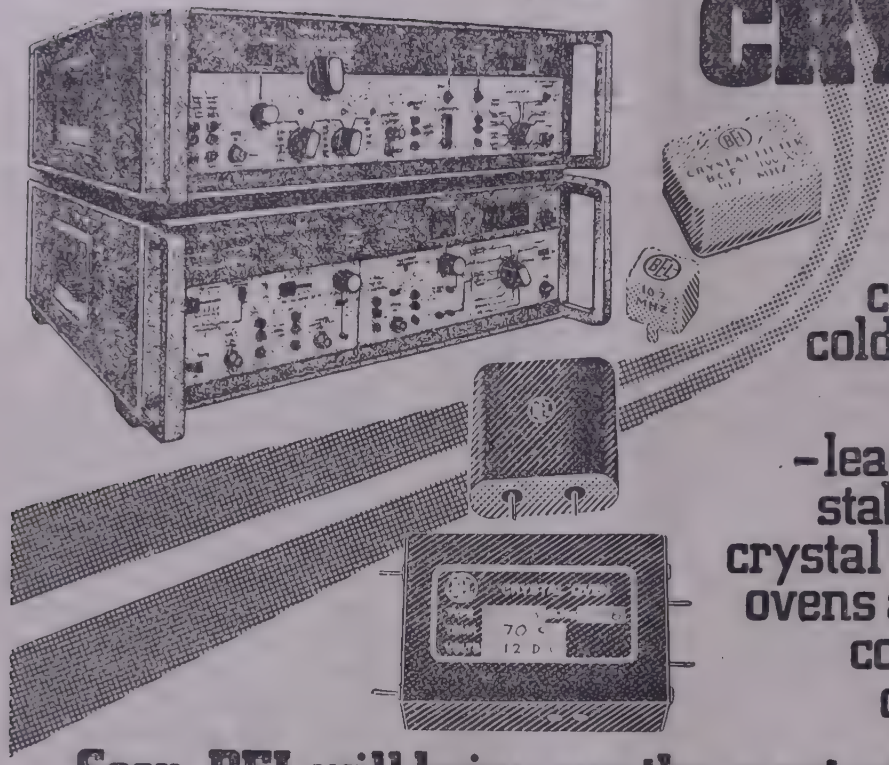
At present there are about 268 PHCs, 108 Urban family Welfare Centres, 24 Post Partum Centres, 255 MTP Centres, 399 oral Pill Centres in the State which are rendering family welfare services. Due to intensive educational and motivational activities the acceptance of various FP methods have been spectacular. Ever since the inception of the programme. 14 lakhs of sterilisation have been performed till March 1980 — 7 lakhs for males and 7 lakhs for females. Family Planning achievements by plan periods have been presented below which are self explanatory.

During the first, second and third Five-year plans, male sterilisation was very popular, but during 4th five year plan there was a shift from acceptance of vasectomy to tubectomy. IUD, which was introduced during 1965, was met with initial succcss as elsewhere in the country, later on, the acceptance has decreased. With this vast performance it is estimated that 30-76 lakhs births have been averted by sterilisations. IUD has averted 2.69 lakh births, whereas CC has contributed in averting 3.17 lakh births.

Karnataka has done well on the family planning front. However, if Net Reproduction Rate (NRR) of 1 is to be achieved by 1996, as set by the interim report submitted by the working group on Population Policy appointed by the Planning Commission of the Government of India, the family planning programme should be intensified in the years to come.

Plan	Period	F. P. Acceptors				Births averted due to Sterilisation		
		Vasectomy	Tubectomy	IUC	CC	Sterilisation	IUD	CC
Second	1956-61	7262	5410	—	—	19008	—	—
Third	1961-66	46159	10431	—	—	84899	—	—
Annual	1966-69	234162	20213	148565	111300	381562	118850	22260
Fourth	1969-74	158412	201428	58878	233951	660652	47100	46792
Fifth	1974-79	264427	538150	128942	387140	1929413	103035	68425

BEL ULTRA-HIGH STABILITY CRYSTALS



Cesium beam
frequency standard
Temperature
coefficient analyser,
cold welding equipment,
spectrum analyser
–leading to high
stability monolithic
crystal filters, crystal
ovens and temperature
compensated
crystal oscillators.

Soon, BEL will bring you the most advanced surface acoustic wave devices and tuning fork crystals.

BEL has now equipped itself for the manufacture of monolithic crystal filters (MCF) — that are much smaller and more reliable than their discrete counterparts consisting of crystals, capacitors and coils. With the excellent temperature characteristics of the AT-cut crystals, MCF offers the scope for a miniature but highly temperature-stable filter network.

Work is underway at BEL to achieve the best in quartz frequency standards. Carefully matched crystal oven and oscillator circuit, that make up the packaged oven-controlled crystal oscillators, will soon achieve this task.

BEL is particularly proud of the work it has done in the area of TCXOs. With stabilities as good as ±0.5 ppm in regular production, BEL TCXOs are in great demand for communication sets — and equal the finest of such devices made anywhere in the world. And communication applications apart, crystal devices are one of the vital components for Digital Watches.

The development activities undertaken by BEL in the field of surface acoustic wave devices (SAW) hitherto new technology, will find widespread application in communication and computation — with performance characteristics unattainable by other technologies.

Such pioneering achievements and capability in the field of crystals and crystal devices are unmatched in India. Only too well matched by its achievements in other component areas: receiving valves, transmitting tubes, X-ray tubes, cathode ray tubes, TV picture tubes, image converter tubes, microwave tubes, display devices, germanium and silicon semiconductors, hybrid micro-circuits, integrated circuits, printed circuit boards and ceramic capacitors.

These technological triumphs notwithstanding, it is BEL's state-of-the-art systems capability, as evidenced by sophisticated equipment and system, that keeps India on the electronics map of the world.

BHARAT ELECTRONICS LTD.
(A Government of India Enterprise)
Bangalore • Ghaziabad • Pune

BEL—leaders in professional electronics

CLARION-BEL-8142

Population Growth in Karnataka During 1971-81: An Analysis

By P. J. BHATTACHARJEE, K. N. M. RAJU and M. V. SHOLAPURKAR *

THE provisional population figures of 1981 census for Karnataka have caused great concern to the state planners and other population scientists working in the state. The population of Karnataka has increased to 3.70 crores in 1981 from a population of 2.93 crores in 1971. The decadal growth rates for 1961-71 and 1971-81 were 24.22 per cent and 26.43 per cent respectively. When these rates are compared with national growth rates, it is clear that during 1961-71, Karnataka's growth rate was lower than the national growth rate (24.80 per cent) while during 1971-81 it is much above the national growth rate (24.75 per cent). Now the obvious question that arises is: why the growth rate for Karnataka during the decade 1971-81 is so high? Three possible answers may be attributed to the higher growth rate: (a) There has been a high rate of inter-state net immigration during the decade. (b) The birth rate has not declined much over the decade. (c) There may be a decline in the level of mortality during this period. A combination of the above factors in various ways has resulted in this high growth rate.

The object of this paper is to put forward some reasonable explanations and arguments for the higher growth rate in Karnataka during 1971-81. An in-depth analysis of population change and its components, at district level, can reveal the role of different components. The statistics of births and deaths, essential for factorization of population growth into its components, are inadequate and incomplete. Moreover, the data on age distribution for 1981 census are not available. Therefore, a direct investigation for in-depth analysis is not possible at this stage. However, there are some technical, indirect ways available which can be evolved to explain this growth rate.

At the very outset, it may be useful to estimate the size of total population had the same growth rate between 1961-71 continued during the decade 1971-81 also. The population of 1981 as estimated on the basis of growth rate of 1961-71 is 36,388,539. But the population of Karnataka, according to 1981 census, is 37,043,451. This means an increase of 654,912. This might be the effect of net inmigration. The assumption here is that the gap between birth rate and death rate remained the same. There may be a decline both in death rate and birth rate. If decline in birth rate is higher than that of death rate, the excess may be due to net immigration (inter-state). If the decline in death rate is higher than birth rate, this volume may be due to the decline in death rate. Since Karnataka is an immigrating state, it may not be only due to decline in death rate. Thus it seems that both decline in mortality rate and inmigration may be the factors responsible for the high growth rate.

Since the vital events like births and deaths are the main factors for the factorization of the population growth other than migration, it is necessaay to have reliable estimates on births and deaths. The trends of these two vital events are also essential for reasonable estimation of the population. No single method is effective in providing relaible estimates of demographic measures, since the results from all the methods are effected by defective age distribution of census. It is, therefore, necessary to arrive at a consensus among the results from different methods. It is clear that the vital rates for Karnataka estimated on the basis of different methods are still quite high for the period 1961-71. The following Table-1 gives details of various estimates.

Regarding the trends, it is rather difficult to arrive at definite conclusions. From various studies, it is clear that there is a declining trend in the rate of mortality. Data provided by the SRS on mortality for the years 1971 to 1977 reveal that there is a decline in the death rate over a time, though

TABLE-1

ESTIMATES OF BIRTH RATES AND DEATH RATES FOR KARNATAKA (1961–71) BY DIFFERENT METHODS

	Birth Rate	Death Rate
1. Coale and Demency Method		
i) From C(10) without adjustment	38.32	18.12
with adjustment	37.25	17.15
ii) From C(35) without adjustment	39.07	18.37
with adjustment	42.23	21.53
2. Bourgeious-Pichat's Method	41.26	20.55
3. Use of two age groups	42.54	21.84
4. Use of Thomson's Index	38.43	17.73
5. Reverse survival ratio method	40.59	19.89
6. Forward survival ratio method	41.86	21.16
7. Life tables, R. G. India*	39.90	17.60

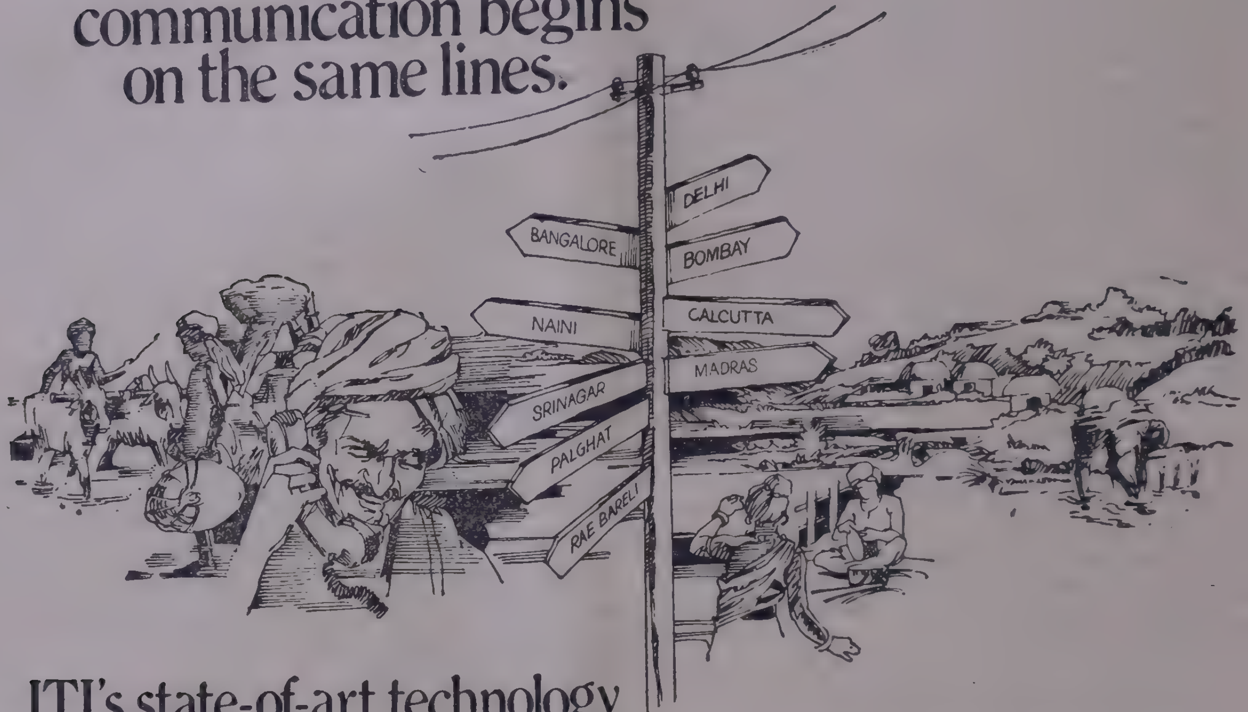
K. Aruna Rao and M.V. Sholapurkar : "Birth and Death Rate estimates for Karnataka State during 1961-71, Using different procedures", in *Journal of Karnataka University Social Sciences*, Vol. XIII, 1977, Karnataka University, Dharwad.

* Census of India 1971, Life Tables, Series-I, India, Paper-I of 1977, (Registrar General and Census Commissioner, New Delhi, 1977).

---

* The Authors are greatful to Dr. P.H. Reddy, Director, Population Centre for his useful comments.

For small rural centres
and giant metro cities
communication begins
on the same lines.



ITI's state-of-art technology
builds the nation
on communication.

Rapid strides in telecommunication have made India a land of shrinking distances, bringing people together

One of the largest public sector undertakings, Indian Telephone Industries has helped to bring telecommunication to small rural centres as well as to giant metropolitan cities throughout the length and breadth of the country

ITI is a massive multi-unit industrial complex, with about 27,000 highly skilled employees, and manufacturing facilities in five locations —Bangalore, Naini, Srinagar, Palghat and Rae Bareli.

Whether in the field of telephone instruments, exchanges, microwave equipment or satellite earth station equipment, ITI offers the most advanced and reliable systems.

ITI **Indian Telephone Industries Limited**
Bangalore • Naini • Srinagar • Palghat • Rae Bareli

CAS-ITI-80127-R

there are some fluctuations both in urban and rural areas[1]. The vital rates of SRS are grossly under-estimated and details can however be viewed from different sources[2]. The decline in the death rate may be small and this achievement is attained largely because of governmental programmes.

Since the SRS data on mortality as well as on fertility are grossly underestimated the rate may not be useful for any baseline study, but the trends may be useful for the assumption on decline. The various health measures like immunization programme, child and maternity care, environmental sanitation, water supply, establishment of PHCs for providing basic medical facilities to the masses, etc., over time by the Government of Karnataka have brought down the level of mortality to some extent.

Regarding the level of fertility, there is evidence of decline. This is probably due to the extensive family planning programme in the state. As the effective family planning programme is not able to bring any change in the age distribution during this short span of ten years, we assume the decline in birth rate only in terms of births averted in respective years. Therefore, it may be quite reasonable to consider the birth rate and death rate for the State of Karnataka for the base-line year, 1971, as 39.0 and 17.6 respectively. Two different estimates for the total population by projecting males and females separately are made on the following basis.

Constant level of ASMF and constant mortality. Age specific marital fertility rate is considered after due adjustment for corresponding birth rate as 39 by prorating as given by SRS during 1971. The e_0^0 for males and females are considered respectively as 49 years and 48 years. The projections are made with the help of life tables in India considering South Zone for 1961-71. The impact of family planning programme is considered for calculating 0-9 population for the year 1981. The yearwise births averted as estimated by R. S. Kurup[3] were considered for estimating yearwise births during 1971-81.

Constant ASMF and decline in mortality. The decline in mortality rate was considered as 0.2 per year and e_0^0 for males and females are considered as 54 years and 53 years respectively for 1981. West model life tables with corresponding e_0^0 are considered for projection. Interpolation was done for arriving accurate level by considering level 15 and level 17 for males and level 13 and leval 15 for females.

TABLE-2

ESTIMATES FOR POPULATION AND DIFFERENT VITAL RATES FOR 1981

(in '00)

	Assumption A	Assumption B
Population	352,819	366,126
Male	180,683	187,558
Female	172,136	178,568
Birth Rate	35.2	34.8
Death Rate	17.6	15.6
Natural increase in per cent	7.76	1.92
Sex Ratio	953	952
Net immigration	17,616	4,309

The two methods based on different assumptions gave the estimates of volume of net immigration as 17.6 and 4.3 lakhs respectively. Since there is evidence of declining mortality rate in the state over time, the volume of net immigration of 4.3 lakhs during the decade 1971-81 can be treated as reliable esiimate. The corresponding birth rate and death rate are 34.8 and 15.6 respectively. The volume of net immigration during the decades 1951-61 and 1961-71 in the state are 78 thousands and 220 thounds respectively.[4] Therefore, there is a trend of immigration in the state earlier also. A detailed analysis shows that Karnataka could attract population mostly from Tamil Nadu, Kerala and Andhra Pradesh, both in its rural and urban areas, while migrants from far off states are concentrated in the urban areas like Bangalore. This is probably because of the fast expansion of industrial sectors in Bangalore.

Some interesting observations can be made from the estimated data. Firstly, if there were no migration during this decade 1971-81 in the state, the growth rate could have been similar to that of national growth of 24.75 per cent. Secondly, the decline in the birth rate from 39.0 to 34.8 during this period shows a pattern similar to that of all-India. This decline in birth rate can be attributed to the performance of family planning programme. Data compiled from the official statistics show that the percentage of couples effectively protected up to 1979 for the state of Karnataka is 22.0 as compared to 22.8 per cent for the country as a whole.

Thus, the family planning performance in the Karnataka State appears to be very close to that of all-India average upto 1979, the reduction in birth rate from 39.0 to 34.8 seems to be quite reasonable. Thirdly, if there were no family planning programmes, the birth rates would have been as high as 41.0 by 1981. In this respect, the achievement of family planning programme in the state can be considered successful.

Thus, from the above discussion and analysis, it is possible to conclude that the higher population growth rate for Karnataka during 1971-81 is mainly due to the decline in mortality and net inter-state immigration. The family planning programme has also played a role in order to reduce the birth rate to 34.8 from 39.0 over the decade.

REFERENCES

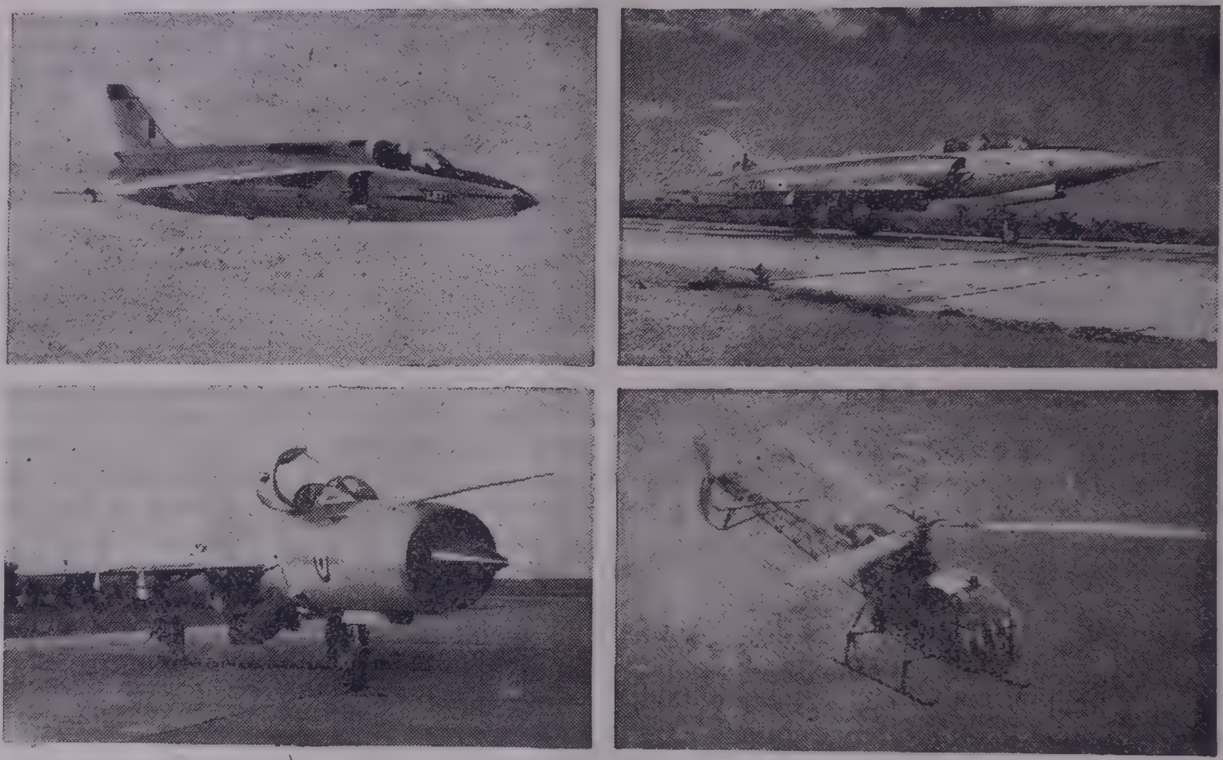
1. Registrar General : "Sample Registration Bulletin", No. XIII(2), Government of India, Ministry of Home Affairs, New Delhi, 1979. See also Directorate of Health and Family Welfare Services: "Health and Family Welfare Service in Karnataka", Year Book 1978-79, Government of Karnataka, Bangalore 1980.

2. Jaipal P. Ambannavar : "Long Term Prospect of Population Growth and Labour Force in India : Second India Studies", Department of Economics, University of Bombay, 1975. See also K. Srinivasan : "Some Observations on the Vital Rates of Karnataka State", paper submitted to the National Seminar on Golden Jubilee of Family Welfare in Karnataka, 27-28 March 1981. Population Centre, Bangalore.

3. R. S. Kurup : "Demographic Impact of the Family Welfare in Karnataka", paper submitted to the National Seminar on Family Welfare in Karnataka, 27-28 March 1981, Population Centre, Bangalore.

4. P. J. Bhattacharjee : "Population Redistribution and Economic Growth in Karnataka 1951-71", Ph.D., Thesis, University of Mysore, Department of Economics, 1977.

HAL- the foremost Aeronautical Complex in South-East Asia



Hindustan Aeronautics Limited is India's gigantic aeronautical industry and one of the major aerospace complexes in the world.

HAL is engaged in all aspects of aerospace activity from product-conception through design and development to production and after-sales service. The Company manufactures complete fixed- and rotary-wing aircraft of its own design and others under licence from world-renowned aerospace companies. Supersonic aircraft are built to specific military requirements. Agricultural, passenger and training aircraft are manufactured to cater to customer needs.

The wide product range encompasses jet and piston-engine power plants, advanced avionics, accessories and armament. HAL also fabricates spacecraft and launch vehicle structural elements.

HAL's versatile overhaul facility accommodates Dakotas, Packets, Caribous, Canberras, Doves, Cessnas and MiGs. All these aircraft including their power plants and systems can be overhauled to rigid international standards.

HAL

Hindustan Aeronautics Limited

A Government of India Enterprise

Indian Express Building,
Vidhana Veedhi,
Bangalore 560 001,
India

VC/HAL/201/79

Road Accidents in Karnataka: Recent Trends

By R. A. DESHPANDE *

INSPITE of the latest technological improvements, an alarming increase in the number of road accidents with consequant economic and social loss is taking place all over the World. The situation is being further aggravated by rapid growth of population and congestion in urban areas. It is estimated that at present 2,064 people are killed and about 12,000 people are injured every year by road accidents in Karnataka. The following table shows the number of persons killed and injured in the State during the period from 1973-74 to 1980-81.

NUMBER OF ROAD ACCIDENTS IN KARNATAKA

Year	No. of Road accidents	No. of persons killed	No. of persons injured
1973-74	6741	1275	6885
1974-75	6297	1331	6894
1975-76	6952	1465	7186
1976-77	8258	1456	8813
1977-78	10196	1636	10104
1978-79	11600	1812	11554
1979-80	11679	1852	11324
1980-81	11311	2064	11918

The responsibility of the State and the community is very great for developing adequate road safety programmes so that the toll of the human lives on the roads and the consequent economic, social and psychological damages through road accidents are reduced to the maximum extent possible.

Road traffic is extremely complex, particularly in this country where it has mixed traffic. It normally consists of pedestrians cyclists, motor-cyclists, rikshas motor-cars, buses, lorries and trucks in addition to animal driven carts and carriages. It includes all type of vehicles with a wide range of performance driven by people varying in and ability to drive and operate on the roads. The roads are also having various kinds of surface, grades, alignments and width under various weather conditions with differing degree of feasibility and changing roadside development from open rural roads to congested city roads.

Road accidents are generally caused by the following three factors: (a) Roadway (b) vehicle and (c) road user. Road conditions greatly affect the traffic; wide road with good surfaces and proper grading with minimum number of curves and proper illumination has the least possibility of road accidents.

Similarly, the defects of the vehicle, particularly the brakes, lights and steering mechanism are often the cause for road accidents. The driver is the most important factor as any slightest error on his part causes a number of road accidents. In fact, the safety of the passengers depends to a great extent upon the ability and the professional efficiency of the drivers. It is therefore very desirable to analyse the causes of road accidents and find out the relative reasons for the road accidents in the State.

The following table gives the break up of road accidents by various causes in Karnataka during the period from 1973-74 to 1980-81.

CAUSES OF ROAD ACCIDENTS IN KARNATAKA

Year	No. of road accidents	Number of road accidents caused due to		
		Bad conditions of road	Mechanical defects of the vehicle,	Human errors
1973-74	6741	246	936	5559
1974-75	6297	225	827	5245
1975-76	6952	47	366	6539
1976-77	8258	181	391	7686
1977-78	10196	65	304	9827
1978-79	11600	227	661	10712
1979-80	11679	96	602	10901
1980-81	11311	113	501	10097

It is therefore obvious that a major number of road accidents have occured due to human errors, i. e., either due to the fault of the drivers or the padestrians or due to other causes. The condition of roads and the defects in the vehicles have contributed to a very small extent to the total number of accidents that have occured in the State.

Since the number of road accidents that have occured due to human errors is more than 95 per cent of the total road accidents, it is desirable to assess separately the number of accidents that have occured due to other human errors.

More than 75 per cent of the road accidents have been caused due to the faults of the drivers and only about 7 per cent from the faults of the pedestrians. Hence the driver is the most important factor in causing road accidents in the State. Although all drivers of motor vehicles have to pass a driving test before being granted the licence to drive. It is felt that the test for professional driver should be scientific and rational because on them depends the safety of the passengers and the goods they carry. It is therefore desirable that that should be made to undergo not only medical examination regarding their suitability to drive, but they should also be given some orientation training regarding the latest innovations on road safety and traffic movements.

Similarly the road users should also be given training in road safety measure and it is necessary to cultivate the road sense among them. The behaviour of the road user causing road accidents is mostly due to either ignorance of rules of traffic or lack of traffic signs or due to both. Hence traffic sense should be inculcated by systematic educational propagation. Traffic education should be both intensive and extensive.

By its very nature, the problem of road accidents is a complicated one. Each accident is the result of a variety of causes. This multiplicity of inter-related causes, including the human element, makes it very difficult to establish with precision the main cause of

---

* Mr. Deshpande is Joint Director (Statistics), Office of the Chief Engineer, Communications and Buildings, Government of Karnataka.

the accident. It is, therefore, essential that to achieve any degree of accuracy, a detailed analysis of all the causes and effects should be carefully carried out. This requires that the statistics of road accidents should be properly collected, compiled and analysed by each region so that the reasons of road accidents can be ascertained and accident prone location can be identified. There is, therefore, need for a high standard of accident reporting. If the original accident reports are poor, the analysis and the results from their use would also be poor.

In Karnataka, road accidents are increasing mainly due to the fact that the number of registered motor vehicle has almost doubled during the last seven years as can be seen from the following table:

MOTOR VEHICLES AND ROAD ACCIDENTS IN KARNATAKA

Year	No. of Motor vehicles in lakhs	Average No. of road accidents per 1000 vehicles	Average No. of road accidents per lakh of population
1974-75	2.00	32	21
1975-76	2.25	31	24
1976-77	2·40	33	28
1977-78	2.99	34	35
1978-79	3.37	34	40
1979-80	3.69	32	40
1980-81	4.08	28	31

From the above table, it is seen that the registered motor vehicles have increased from 2.00 lakhs in 1974-75 to 4.08 lakhs in 1980-81. The number of road accidents per 1000 vehicles which was 32 in 1974-75 has come down to 28 in 1980-81. But the number of road accidents per lakh of population which was 21 in 1974-75 has increased to 31 in 1980-81.

In the prevention of road accidents we have to give more importance to some causes than others not because they contribute more to the accidents but because they are more readily subject to control. Thus, vehicle defects are often considered more important than the human characteristics that compare with them to the causes of accidents simply because it is easier to do some thing about the vehicle defects than about the driver's deficiencies. To sum up it may be stated that road accidents can be avoided by proper education, by proper engineering construction and proper enforcement of the motor vehicle administration.

VIJAYA BANK FORGES AHEAD DURING GOLDEN JUBILEE YEAR

The Vijaya Bank, which was nationalised on April 15, 1980 along with five other private sector banks, is celebrating its Golden Jubilee. The Bank has its 588 branches spread over 20 states and 5 Union Territories. Of these, as many as 228 are in rural centres and 135 in semi-urban areas. The largest number of branches is concentrated in Karnataka (295) followed by Andhra Pradesh (53), Kerala (50), Maharashtra (40), Uttar Pradesh (26), Tamil Nadu (24) and Gujarat (21).

The deposits of the bank stood at Rs. 435.21 crores as at the end of 1980. The bank has introduced several savings schemes to cater to the varied needs of people from different income groups. The Golden Jubilee year is expected to give further boost to the deposit mobilisation efforts of the bank. Its deposits are expected to cross the Rs. 500-crores mark by the end of December 1981. As at the end of 1980, the balance outstanding under advances to priority sector stood at Rs. 78.56 crores. Advances to agriculture formed the major portion of the priority sector credit, amounting to Rs. 28.12 crores. the number of small acale industrial units assisted by the bank increased by 237 to 2002 during 1980 and the amount outstanding was Rs. 25·71 crores.

The bank's performance in lending to the priority sector during the first half of 1981 is very good. The year-end target of 35.9 per cent for the share of priority sector advances to total advances was surpassed by June 1981 itself. The bank is expected to cross the Rs.100-crore mark in financing the priority sector during this year. Mr. R. Vijayaraghavan, Chairman and Managing Direcor of the bank said at a press conference that he was hopeful of reaching the deposit target of Rs. 1,000 crores by 1985.

Grams : 'MYSTOBACCO' Phone ' 54292 & 55389

The Mysore Tobacco Company Ltd.

(A Subsidiary of Karnataka Agro-Industries Corporation Ltd).

No. 17, Richmond Road, Bangalore-5600 025

Curers, Graders, Buyers, Redriers,
Packers and Exporters of
Finest Quality Mysore Tobacco
Specialists in Virginia Tobacco
AT THE SERVICE OF TOBACCO GROWERS
IN KARNATAKA

Rural Development Programmes in Karnataka's Sixth Plan

By K. PUTTASWAMAIAH*

IN Karnataka, the integrated rural development programme was in operation in 85 blocks. On October 1 1980, the programme was extended to all the blocks in the country by the Government of India and as a result, the IRDP has been extended to the remaining 90 blocks in the state. The Small farmers Development Agencies were merged with the IRD. Each block will get an amount of Rs. 35.00 lakhs during the plan period. During the year 1980-81, an amount of Rs. 5.00 lakhs was provided. The outlay for the year 1981-82 is Rs. 6.00 lakhs. During the next three years of the plan period, each year Rs. 8.00 lakhs will be provided. The State will get Rs. 61.25 crores during the Sixth Plan period.

For integrated rural development programme, taluk has been taken as the unit and the block plan would ensure optimum utilisation of local resources, integration of various on-going programmes and formulation of development plans with the objective of providing economically viable activities to the rural poor. The poorest among the poor should be selected for assistance. The concept of block level planning envisages a shift from sectoral fragmentation of funds to area specific funding of the integrated programme with an accent on the beneficiary. The beneficiary approach calls for a household survey. On an average, 3000 families are to be covered during the plan period in a block. Cluster approach has been adopted.

In the preparation of block plan, the first task is the resource inventory of the region. The resource inventory will provide the basis for identifying the development potential and evoluing suitable programmes. The existing potential of the region will have to be assessed so that the schemes could be selected depending upon the suitability of the region. The perspective five year plan will be prepared and this should indicate the sector-wise details about the potential for development of various activities. The credit plan should be prepared based on the perspective plan. This should give a broad indication of the type and magnitude of the activities envisaged, clusters identified and the quantum of credid likely to be provided.

In the selection of clusters, the existence of programmes and infrastructure available, availability of credit institutions, present level of development and the capacity to absorb credit, concentration of SCs/STs and other weaker sections below the poverty line have to be considered. After conducting the house-hold survey, the selected families below the poverty line will be classified in terms of *per capita* annual income.

The programmes under IRD are beneficiary oriented whereas the emphasis is on infrastructure development under DPAP. Wherever the DPAP is in operation, the infrastructure required for IRDP will be taken up under DPAP. This is only with a view to utilising the amount provided for infrastructure development to beneficiary oriented programmes. The concerned departments also provide funds under their budget for infrastructure programmes.

With a view to maintaining uniformity in the conduct of household surveys and to ensure timeliness in their completion, common questionnaires have been structured. Identity-cum-monitoring cards are being used. From the year 1982-83 onwards, the survey results will be computerised. During the first year of the Sixth Plan period, an amount of Rs. 8.34 crores lakhs was spent as against an outlay of Rs. 14.23 crores. The amount available during 1981-82, including the unspent balance, is Rs. 17.67 crores.

The Employment Affirmation Scheme was taken up in the State in June 1978. The main objective was to guarantee gainful work opportunities to the rural poor atleast for 100 days during the slack agricultural season and benefit the rural poor. The programme was in operation in 99 blocks upto March 1981. It was extended to all the blocks in March 1981. The National Rural Employment Programme was introduced in 1980-81. The E. A. S. will be merged with this programme. The pattern of funding is 50:50. The Centre will provide its share in the form of foodgrains to the extent surplus foodgrains are available and the rest in cash.

Such an approach to planning at the block level requires strengthening of the planning machinery and the planning process at the grass root level. The grass root planning based on the felt needs is important in the present context. The coverage of target groups in the plan framework should not be at the exclusion of other population. The block level planning would mean considerable re-organisation of the existing planning apparatus and administrative hierarchy.

The District Rural Development Societies have been set up in all the districts. The main object of setting up of these societies is to have speedier and effective implementation of the programme, to avoid lapse of grants at the end of the financial year and also to keep up the tempo of progress during the beginning of the year even if there is delay in sanctioning the plans. The concept of DRDS will have to be broadened by bringing in more number of schemes under its umbrella. There is the need for coordination of the rural development effort. Therefore, the Government is considering the constitution of a Comprehensive Rural Development Authority. It would function through the normal Government machinery on the rural development side.

---

* Dr. Puttaswamaiah is Director, Project Formulation and Director, DPAP, Goverment of Karnataka.

Impressive Progress in Industrialisation of Karnataka

(Contributed)

THERE has been an increasing awareness that rapid indusrial development, particularly the development of small scale and village industries, could be one of the many solutions to the problems of poverty and unemployment. Karnataka has made impressive progress during the last decade in the development of industries and the infrastructure facilities. The industrial policy of the State is oriented towards maximising industrial development and employment opportunities. The balanced regional development also receives primary consideration. The bulk of the plan resources are utilised towards providing the required infrastructure facilities and equity participation through the network of institutions created for the promotion of industrial development in the State. A package of incentives and concessions have also been offered by Government of Karnataka to attract fresh industrial investment into the state. The promotion and development of small scale industries, especially handlooms, handicrafts, coir, leather and cottage industries also receive due consideration in the allocation of resources under the plan programmes. The programmes formulated under the plans are oriented towards promotion of financially strong agencies for supporting industrial activities, covering the requirements of technical assistances, raw materials, marketing, credit, etc., acquisition and development of industrial areas and construction and maintenance of industrial sheds.

The department of Industries and Commerce has been making continuous and sustained efforts to keep up the tempo of industrial development generated in the State during the recent past. The field of active assistance extended by the department to industries include the assistance in securing industrial licences, registration of small scale industries, provision of basic facilities like land, water, power, distribution of scarce raw materials and incentives and concessions by way of cash refund of sales tax paid, development loan, subsidy, etc.

The progressive industrial policy adopted by the State, coupled with the institutional assistance has resulted in a perceptible increase in the number of applications for industrial licence during the recent past. The department has received 145 applications for industrial licence till Junuary 1981. These include letters of intent for new undertaking/new end products/substantial expansion of the existing units and carrying on business. Of these more than 22 licences have been cleared till January 1981. This accounts for a total investment of over Rs. 26 crores with an employment potential of about 10,058 persons.

Letters of intent and industrial licences already issued cover a large varieties of important items in the industrial fields, including metallurgical, electrical, electronics, chemicals, sugar, paper, cement, textiles, food processing, etc. As many as 75 large scale industrial units have gone into production during 1974-81 till Jaunary 1981, involving an investment of Rs. 117.63 crores giving employment opportunities to another 20,761 persons.

The Karnataka State Industrial Investment and Development Corporation primarily functions as a financial institution. Its main functions are promotion of industries and extending financial support by way of investment in equity and term loans. The authorised share capital of the Corporation is Rs. 2,500 lakhs. The total paid up capital as on January 31, 1981 is Rs. 2,114.79 lakhs.

The Corporation has assisted upto March 31, 1980, 182 Companies by way of participation in share capital and loans to the extent of Rs. 19.95 crores and Rs. 27.22 crores respectively. Against these sanctions it has released a sum of Rs. 14.75 crores by way of participation in share capital and Rs. 16.8 crores by way of disbursement of term loan. As a matter of policy, the Corporation has been setting up some of the Joint Sector projects like Tungabhadra Fibres Ltd., Karnataka Blades Ltd., Marine Freight Container Project, Karnataka Poly Products Ltd., Karnataka Aluminium Ltd., Hindustan Antibiotics and some of the major cement plants.

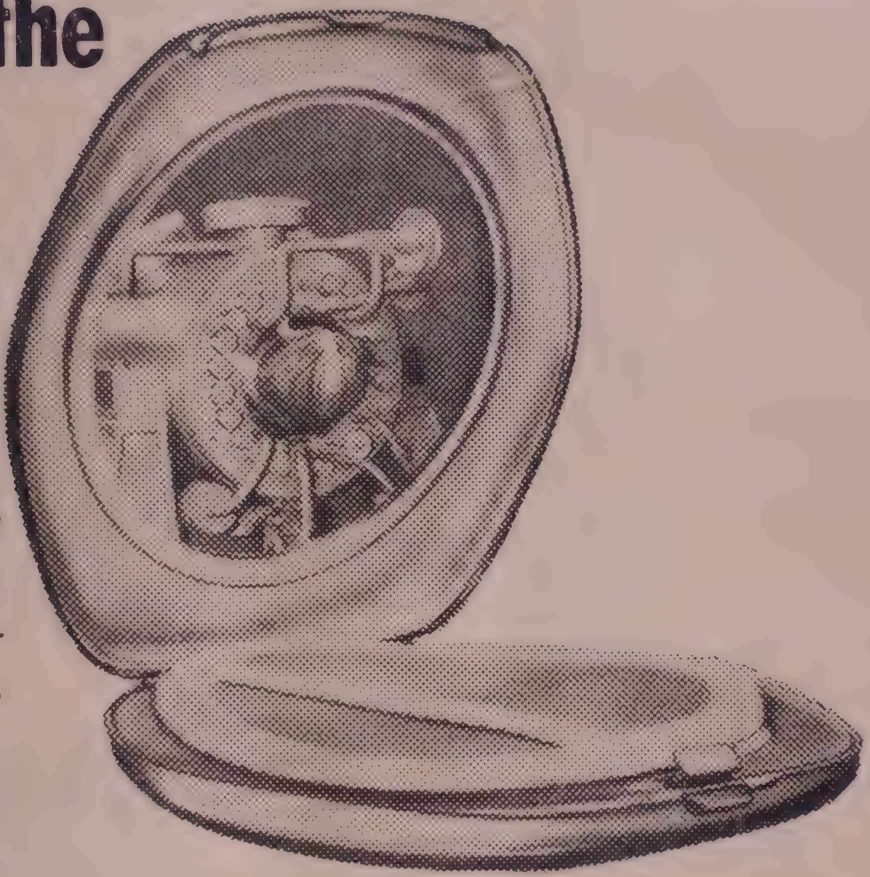
KSIIDC proposes to set up an Industrial Complex in Sidlakal Village near Ramangaram, Bangalore District, for providing the entrepreneurs all inputs necessary to start an industry under one roof — water for industrial and potable use, power, common effluent treatment and disposal, share capital investment, term loan, subsidy and development. The total cost of the complex is estimated at Rs. 2 crores. The complex is expected to be completed in two stages by about 1982.

The Karnataka Industrial Areas Development Board was set up with the main objective of promotion of industries in the State in orderly manner through acquisition, development and allotment of land to industrialists. The Board was established during the year 1966.

The Board has achieved substantial progress in acquisition and development of land for industrial purposes. The Board has so for distributed more than 5,913 acres of land to 1,202 entrepreneurs in small, medium and large scale sector. An extent of 26,863 acres of land is under acquisition now. The Board has a programme of acquisition of an additional 10,000 acres of land in various industrial areas to be declared all over the State especially in the backward regions during the Sixth five year plan.

BHEL-Hyderabad products—in time with time:

When you're cleaning up oil, you've got to be careful about the make-up.



In your refinery, high pressure processes including make-up and recycling need multistage centrifugal compressors from BHEL-Hyderabad. These compressors are also widely used in petrochemical plants—and in fertiliser and steel plants.

The case for our compressors—it's split at the right place:

At BHEL, we manufacture a range of centrifugal compressors—split vertically or horizontally for quick, complete access to internal parts.

Depending on the pressure and the gas you handle, BHEL can recommend you the right compressor out of six types being manufactured.

Who's been buying from BHEL?

Practically every major fertiliser, petrochemical and refining plant goes in for centrifugal compressors from BHEL, for building up the pressure of ammonia synthesis, nitrogen, carbondioxide, ammonia refrigeration, raw gas, natural gas and air.

A few of our many buyers: Fertilizer Corporation of India, IFFCO, Mangalore Chemicals & Fertilizers, National Fertilizers, Rashtriya Chemicals & Fertilizers, Gujarat Narmada Valley Fertilizer Company, Cochin Refineries, Indian Oil Corporation, Bhilai Steel Plant.

Even project consultants, who shop around the world, specify compressors from BHEL.

Because they know a good compressor when they see one.

To drive the compressors BHEL also manufacture high speed compressor drive turbines of a wide range to meet any process steam network.

As you can see, BHEL make a range of products that serve a wide variety of industries—not just power generation equipment. That's BHEL today—in time with time.

Write to us for more details:

BHARAT HEAVY ELECTRICALS LIMITED
Heavy Power Equipment Plant
Ramachandrapuram
Hyderabad 500 032
Regd. Office:
18-20 Kasturba Gandhi Marg
New Delhi 110 001.

BHEL

SAA/BHEL/2898

Look how PSB is getting to be No.1 in your affections!

". . . proved that saving even ten rupees a month was good enough to buy myself a present"

The effortless way to save. A Recurring Deposit Scheme gives high interest rates too.

". . . came home to teach children the first lesson in savings"

The Chhoti Bachat Scheme. Re. 1 a day becomes Rs. 1826 plus interest in 5 years—without your having to step outdoors.

ASP/PSB/202 81A

PSB—The name of total banking service
PUNJAB & SIND BANK
(A Government of India Undertaking)

The Karnataka State Financial Corporation was set up in 1959 under the State Financial Corporation's Act 1951, as a regional development bank to promote industrial entrepreneurship and facilitate balanced growth of industries through provision of long term finance, specially to small industrial units. It has completed two decades of service in the cause of industrialisation of Karnataka. The cumulative assistance to more than 3,800 units sanctioned by the Corporation has crossed Rs. 100 crores.

It is not enough if the Corporation merely increases its volume of sanctions. Equally significant are the direction and flow of its assistance. The share of SSI in the assistances by the Corporation has been increasing. In the year 1979-80, SSI in Karnataka received 72 per cent of the total loans sanctioned by the Corporation accounting for 56 per cent of the total quantum of assistance. In 1980-81 (as on December 31, 1980) 550 loans have been sanctioned to SSIs, accounting for 84 per cent of total loans, for an amount of Rs. 8.42 crores accounting for 65 per cent of the total sanctions.

In consonance with the official policy of dispersal of industries to backward areas, the assistance by the Corporation has been flowing on a larger scale than in the past to backward areas in the State. The Corporation has a special scheme called 'Technicians' Scheme specially designed for technical entrepreneurs with inadequate financial resources. Under the scheme, more than 395 loans have been sanctioned and during 1980-81 (upto 30.12.80) 38 loans have been sanctioned under a special scheme for entrepreneurs belonging to SC, ST and other backward classes on specially favoured terms. The 'Composite Loan Scheme' introduced by the Corporation to assist tiny industries and artisans with built in special features, such as zero-margin, longer moratorium, etc., is becoming increasingly popular.

The Corporation proposes to expand its operation on a large scale in the years to come. It proposes to increase its scale of sanctions at the rate of 30 per cent per annum providing for 10 per cent inflationary factors, exceeding Rs. 5.91 crores. During 1979-80, 83 loans for a total amount of Rs. 1.21 crores were sanctioned. At this rate, the sanctions of the Corporation are expected to be Rs. 26 crores in 1981-82.

The State Government has set up an Electronic Development Corporation to organise and promote the growth of electronic industries in the State. In tune with the objectives, the Karnataka Electronic Development Corporation has undertaken the following projects: The Corporation has undertaken a gigantic task of establishing an electronic city on an area of 300 acres of land on Bangalore-Hosur road on National Highway No. 7. The area has been declared as an industrial area by the Government of Karnataka. It is anticipated to accommodate about 265 electronic industries at an estimated cost of Rs. 364.5 lakhs. The project has been approved by the Government of Karnataka. The area has been divided into several plots and allotment to small, medium and large

With best compliments from :

Karnataka Scooters Limited

'Almas Centre', 87, M. G. Road, Bangalore-560 001.

Manufacturers of :

Falcon-150 Scooters & BSA Falcon GT50 Mini Motorcycles.

scale electronic industries have been taken up. The work relating to the infrastructural facilities like internal and subsidiary roads connected to National Highway Road, street lights, water, parks, banks, post office, medical centre, canteen, etc., has been taken up and is in active progress. An expenditure Rs. 16.00 lakhs (approximately) is anticipated by the end of this year. It is anticipated that the project will be completed by 1984. Ultimately, it will create an employment for 10,800 people. Indian Telephone Industries has already taken action for construction of its buildings.

Keonics material centre has been providing assistance to the small scale electronic industries in respect of import/indigenous raw materials and components required by them resulting in saving on the inventory costs and to ease their cash flow. Keonics testing and/development centre is being established to extend assistance to small scale sector, especially with respect to maintenance of quality and reliability. Karnataka Video Systems Ltd., Keonics Telecommunication Ltd., Electronics Watch Project, Karnataka Antennas and Systems Limited; Karnataka Resisters Ltd., and Karnataka Connectors Ltd., are some of the projects taken up by keonics. The Corporation has promoted more than 100 small scale electronic industries and has been assisting 19 more medium and large scale industries which will give rise to many small ancillary industries being set up.

The Department of Industries and Commerce has been paying due attention for the promotion of small scale and village industries like handlooms, handicrafts, coir, leather, etc. A common feature of the industries is their scattered nature, decentralised operations, low security and financial inputs, marketing problems, etc. A package programme has been evolved for the development of these industries covering assistance by way of technical guidance, finance, supply of raw materials, quality control, marketing assistance, etc., in association with the financial institutions and instituions credited for the development of specific industries. As far as small scale industries are concerned, importance is being attached to the development of ancillaries to big projects like NGEF, VISL, BEML, KEB, etc., and the establishment of industrial ventures by technically qualified entrepreneurs under the employment programme. The total number of small scale industries which was around 9,500 in 1970-71 has risen to about 27,131 by March, 1981, which is a remarkable achievement.

In accordance with the industrial policy of the Government of India. out of 19 Districts in the State, 7 District Industries Centres were formed during 1978-79 and six more Dist. Industries Centres have been formed during 1979-80. The thirteen Districts inthe State covered under DIC programme are--Tumkur, Dharwad, Shimoga, Hassan, Belgaum, Bijapur, Bidar, Mysore, Kolar, Uttara Kannada, Dakshina Kannada, Raichur and Gulbarga.

The object of forming Dist. Industries Centres is to provide all services and support to the decentralised industrial sector at a single roof at pre-investment, investment and post-investment stages. In each District, there is a General Manager who is in charge of the entire District. Under him, there are three to four functional managers assisted by assistant directors. There is one Extension Officer attached to the Block Development Officer in each taluk to cater to the needs of rural artisans and SSI and KVI. Only trained personnel have been posted.

Soon after the formation of the District Industries Centres, the survey has been taken up to identify growh centres taking into consideration the resources and raw materials available. Infrastructural facilities have also been proposed. Assistance is being rendered to provide land, water and power to SSI and KVI Units. To avoid small entrepreneurs, artisans coming to city for their requirements, the General Manager of DICs have been delogated with financial and administrative power to render assistance to the entrepreneurs at the District Level itself. Another importent step is providing scarce raw materials to the SSI units by the General Manager of the Dist. Industries Centres.

After the formation of 13 DICs, 1,667 new units have been registerd on permanent footing and provisional registration certificates have been issued to 3,466 artisan, small scale and other units providing employment to 15,321 persons. Four thousand two hundred sixtyeight loan applications have been recommended and loans amounting to Rs. 305.08 lakhs have been sanctioned by the lead banks. In addition, 1,437 units have been rendered financial assistance amounting to Rs. 381.92 lakhs. 262 units have been assisted to get motive power in rural areas. 1164 units have been provided with scarce raw materials. One of the important schemes under the DIC programme is to provide training to rural artisans in the latest improved appliances so as to enable them to establish their own craft in their place. With this purpose in view, 4,020 candidates have been trained under RP, IRD, DPAR, SFDA, CD and TRYSEM under various crafts like carpentry. smithy, mat weaving, tailoring, embroidary, carpets weaving, leather stiching, etc.

The Karnataka Small ndustries Development Corporation is the main agency for development of small scale industries. The activities of KSIDC include—construction, maintenance and management of Industrial estate for SSI units in the State: Procurement and distribution of raw materials to SSI units; offering marketing assistance to SSI units; establishments of Technical Library and providing tool room facilities and testing laboratories.

So far, the Corporation has constructed 1,592 sheds and developed 500 plots in 43 industrial estates in the State. Besides, 498 sheds are at various stages of completion, KSIDC has also undertaken the establishment of ancillary industrial estate for VISL at Bhadravathi, NGEF, ITI, HAL, KSRTC, KEB at Bangalore, AVB Vikers at Shahabad, BEML & BGML at KGF, Mysore Kirloskars at Harihar, etc. The Corporation has also taken up the establishment of industrial estates under the Western Ghat development programme.

Solving the Housing Problem in Bangalore City: Some Suggestions

By V. S. KRISHNA IYER *

DUE to the migration of people from the rural parts to urban areas, i. e., to towns and cities, there is acute housing problem in cities. In Bangalore, rapid growth of population due to industrialisation, urbanisation, inflation and setting up of various factories and other business undertakings are the main factors for the shortage and high cost of housing. On account of shortage of housing and land, the prices of land have been pushed up to 6-10 times during the last few years. To provide houses to industrial workers and others, various organisations like National Buildings Organisation (NBO), the Central Building Research Institute and the HUDCO have been established.

One of the ways to solve the housing problem is to see that more and more houses are constructed by using new materials and new methods of construction, by reducing the cost of these houses. At present, most of these innovations remained at the design or experimental stage because of a lack of proper coordination between the building trade and the Government Housing authorities. Therefore, it is desirable that the government housing authorities should take proper steps to use these innovations extensively. Moreover, the changing concepts of acceptable standards are not reflected in various bye-laws and building regulations of the local authorities who are sanctioning the building plans. We have to fix up our standards for housing properly and see that the municipal bye-laws are suitably amended to encourage building of small houses and also to see that unnecessary delay in sanctioning of the plans etc., by the Municipal authorities is avoided. It is not only bulding of a house which is necessary but also to see that there is provision of water, drainage, electricity, roads and space for recreation without which it cannot be called a house with minimum basic amenities. In other words, the infrastructure is as important as the house.

Slums are growing in Bangalore on account of housing shortage. Therefore, slum improvement programmes should be undertaken vigorously. Due to the setting up of a number of industries in the city and the enormous growth in all fields, people from neighbouring States have come to the city for jobs and, being unable to pay exorbitant rents even for small houses, have started constructing unauthorised houses or huts in the vacant space. Slums have been coming up for the last so many years. If the Corporation or the B. D. A. had put a stop to the growth of slums as and when unauthorised huts are put up by the people in the vacant land, most of the slums would not have come up in Bangalore City. The Corporation or the Housing Board should have taken action long ago for the construction of houses in an orderly manner. It is estimated that there are ubout 450 slums in Bangalore comprising about one lakh families. It is difficult to demolish all the old slums and to rehabilitate the slum dwellers at one stroke. The Slum Clearance and Rehabilitation Programmes must be carried out in a phased manner in ten years' time by raising funds from the World Bank and other financing agencies. It should also be tackled on a war footing. To remove housing shortage in Bangalore, it is necessary to undertake some of the following measures:

1. Concentration of land ownership in a few private hands should be prevented.

2. Adequate land should be made available at resonable prices to both public authorities and individuals.

3. The Urban Land Ceiling Act should be implemented immediately.

4. Housing Co-operatives should be encouraged by giving them all facilities.

5. Houses should be constructed by the public and private sector industries in the city, railways, government, corporation and other bodies for their staff on a priority basis. It should be made obligatory on the part of Management to provide quarters for their employees.

6. New layouts and new extensions should be formed on the out skirts of the city to solve housing problem.

7. More and more industries should be started in the neighbouring districts of Bangalore City like Tumkur, Kolar, Mysore and in the rural parts to stop the migration of people to Bangalore.

8. Building materials like cement, steel, etc. should be released to the owners of small sites for construction of houses, i.e., upto 5 or 6 squares only, on priority basis and thus, curbing the construction of big houses and shops which require huge quantity of cement.

A Recent surveys of HUDCO financed houses showed that 73 per cent of EWS (Economically Weaker Section) houses costing Rs. 8,600 were in reality occupied by LIG (Low Income Group) families. LIG and even MIG (Middle Income Group) families occupied 90 per cent of EWS houses that cost Rs. 10,000. Similarly, LIG houses were generally occupied by MIG families. Since houses are constructed by people mostly by taking loans, it is necessary to bring about coordination between various housing and housing-finance programmes since housing is one of every one's needs.

The shortage of houses in Bangalore is not only an economic problem but it is also a psychological and sociological problem.

---

* Paper presented at the Round-Table discussion on Housing problem in Bangalore City in September 1981, organised by the Indian Statistical Institute, Bangalore Centre.

Unless the Hosing is regarded as a priority sector and unless the various construction materials including finance are made available in adequate quantities and at reasonable prices and unless the private owners of houses are offered the necessary incentives, housing will continue to be a problem in Bangalore. It is desirable to give some tax relief to the owners of the sites who want to invest on the construction of houses.

The Karnataka Housing Board has taken up a number of housing schemes. From its inception, i.e., June 1 1956, it has constructed about 44,909 houses by spending Rs. 52.30 crores. There are about three lakhs families in Bangalore City out of which about one lakh families are having proper houses and another one lakh are residing in slums and unauthorised huts and the remaining one lakh or so are residing in dungeon-like houses. Therefore, the housing problem should be tackled on a war footing.

The city has grown in a haphazard manner. Even in the construction of houres, there is no uniformity and we find in a number of layouts houses are constructed in different fashions and thus marring the entire beauty of Bangalore City. In addition, even minimum basic ameniiies like roads, water, underground drainage etc., are not provided to the new extensions with the result even though a number of houses are ready for occupation in various extensions, they are vacant.

About BDA layouts, action should be taken immediately to provide transport facilities and also all basic amenities like roads, proper drainage and water supply so that people who have constructed houses could move to their new houses or they could rent out their newly constructed houses which are at present vacant for lack of these facilities. The housing programme of the BDA has come to a stand-still. They have neither formed new layouts nor allotted sites to the citizens by acquiring lands. They are expecting surplus lands consequent on the implementation of the Urban Land Ceiling Act, but so far, nothing has been done in this direction.

For the construction of houses by the people in the city, there is yet another problem, i. e., lack of water supply. When water is not available for drinking purposes in the city, it is impossible to provide water for house building purposes. Therefore, due to non-availability of water, some of the site-owners are unable to start construction of their houses. It is very necessary to complete Cauvery II Stage immediately and to take up the work of Cauvery III Stage to provide sufficient water even for building purposes.

Due to lack of funds, some of the site-ownere are not taking up construction work. In these days, it is very difficult to raise loans from outside. Therefore, some of them who are possessing sites in Bangalore are waiting for the expiry of the lease period of ten years so that they could dispose off their sites purchased at lower prices to speculative prices. The BDA must take steps to see that all those who have been allotted sites in the Bangalore City area start construction of their houses immediately or action should be taken to cancel the allotment of their sites.

Now the Housing Board is not building houses in Bangalore City. In view of the acute shortage of houses in the city, it is very necessary that the Board should take up the construction of houses both for the economically weaker sections and middle class groups. The HUDCO is the only financing agency available for the construction of houses. They are giving very meagre funds. Therefore, the Government should take action to see that adequate funds are given to the Housing Board for the construction of houses.

There is tendency a in Bangalore City to go in for construction of shopping complexes instead of houses on account of the exorbitant rent from shops. This practice should be deprecated and instead, steps to be taken to see that more number of small houses with minimum basic amenities are constructed. At present, the owners are demanding very heavy advance for the houses. Therefore, steps should be taken to see that only reasonable advance is allowed so that it would help the persons of middle income group to get houses easily.

Regarding Rent Control Act, I feel it requires some amendments. At present, owners are reluctant to let out their houses. They fear that once a house is allotted to a person through the Rent Controller it is difficult to get back the house or evict the tenant even if the owner wants the same for a genuine purpose. Moreover, the owers fear that they may not get fair rent with the result they prefer to keep their houses vacant instead of letting it out for a meagre rent by stating that the house is requed for self-occupation. Therefore, the Act should be amended suitably to provide adequate safeguards not only to tenants but also to owners so that the construction activity is not hampered and the houses now kept vacant for self-occupation are available for allottment.

CANARA BANK'S FIRST EXCUTIVE DIRECTOR

Mr. B. Ratnakar, presently Joint General Manager of Canara Bank has been appointed as its first Executive Director. Mr. Ratnakar has had a brilliant academic and professional record. He was award a gold medal for the best student in the year 1956. At the very young age of 20, he joined the bank as apprentice pupil. In a span of 25 years, he has served the bank in various capacities as manager, Regional Manager, Divisional Manager, Deputy General Manager & Joint General Manager. He was the first person in the Bank to complete the AIB London in the very first attempt. Among his other interests are social work activities. He was a Executive Committee Member of War Widows' Association, Member of Delhi Mahila Kalyan Samiti (Trust formed by Central Social Welfare Board), Trustee of Digestive Diseases Foundation, National Eye Foundation, Director D. S. I. D. C. New Delhi, Treasurer & Secretary - Bankers' Club, Delhi. He has travelled widely abroad.

Higher Deposit Growth and Dear Money

I

SHARP fluctuations in the resources position of the banks and changes in the interest rate structure were the main highlights of the banking scene in 1980-81. Modifications in the monetary and credit policy during the year clearly demonstrated the facility with which it could respond, in the short-run, to emerging trends in the banking sector. These modifications have to be seen in the broader perspective of containment of inflationary pressures which was the overriding objective of economic policy.

Notwithstanding the remarkable recovery staged by the economy — real national income is estimated to have risen by about 7 per cent in 1980-81, in sharp contrast to a decline of 4.5 per cent in 1979-80—there appeared to be little abatement of inflation. Wholesale prices recorded, on the basis of monthly average, a rise of 18 per cent in 1980-81, close on the heels of the 17 per cent rise in the previous year. The overhang of excessive primary money creation in the preceding two years and the sizeable decline in foreign exchane reserves anticipated for 1980-81 lent sharper edge to the need for controlling monetary expansion. The broad strategy of monetary policy therefore continued to be structured around deceleration of money and credit growth to rates consistent with increases in real income. It was this strategy which alternately required the relaxing of Cash Reserve Ratio (CRR) in October 1980 and its subsequent tightening in May 1981 and a further tightening of credit policy in July 1981 culminating in the raising of the Bank Rate and the Statutory Liquidity Ratio (SLR). Public confidence that a slowing down in money and credit growth will be achieved is also essential to the dampening of inflationary expectations — a factor which is critical for eliciting reasonably prompt response to anti-inflationary measures.

The swings in the liquidity of the banking system were rather sharp as between broadly the first and the second half of the year (July-June). This swing primarily stemmed from the pace of deposit accretion: the rate of deposit growth during the first half (July-December) at 9.3 per cent was lower than the rate of 9.7 per cent during the corresponding period of the previous year. On the other hand, on the eve of the busy season, the demand for credit from the banking system was expected to be substanially large, in view of the anticipated growth of the economy as well as for meeting the requirements of food credit, priority sectors, exports and those for fertiliser imports and distribution, and of petroleum credit. It was thus apparent that the banking system's resources were far from adequate to meet the likely demands and hence to enable banks to use a somewhat larger proportion of their incremental deposits, the Reserve Bank decided to exempt banks from maintaining the additional cash reserve of 10 per cent of the incremental demand and time liabilities with effect from end-October 1980. The measure was a credit policy response to the emerging resource constraint of the banking system.

The trend during the second half (January-June) of the year presented a sharp contrast as the deposit growth picked up after December 1980. The deposit growth, at 10.1 per cent, was significantly higher than the growth of 6.1 per cent in the corresponding period of the previous year. This, in its turn, facilitated a faster rate of non-food credit expansion. The The earlier expectations of a slow-down in monetary expansion had not materialised. In fact, monetary expansion (M_3) at 18 per cent in the financial year 1980-91, turned out to be marginally higher than in 1979-80. The growth of primary money had also been large in 1980-81, especially when judged in the context of a sizeable decline in foreign exchange reserves. While prices had shown a somewhat slower pace of rise on a point-to-point basis, the rise on the basis of monthly averages was slightly higher in 1980-81 than in 1979-80 (financial year). Monetary correction, therefore, became an imperative necessity. The raising of the Bank Rate from 9 per cent to 10 per cent in July 1981 and also the CRR and SLR by one percentage point each were the measures designed to achieve the objective of slowing down monetary expansion.

For the year as a whole, the deposit growth was substantially higher than in 1979-80. The rise in aggregate deposits amounted to Rs. 6,807 crores or 20.4 per cent, as compared with an increase of Rs. 4,706 crores or 16.4 per cent in 1979-80. The significantly higher deposit growth is attributable to the relatively higher increase in real national income in 1980-81 and, perhaps to some extent, sizeable primary money creation. The expansion in non-food credit was also much larger during the year at Rs. 4,529 crores or by 23 per cent, as compared with Rs. 2,967 crores or by 17.8 per cent in 1979-80.

Simultaneously with the presentation of the Budget for 1981-82, several changes were made in the interest rate structure. There was an upward adjustment in the rates on bank deposits with maturities of one year and above with effect from March 2, 1981. This represented an attempt to provide adequate incentives to financial savings in an inflationary environment. The changes in the term structure of deposits were also expected to bring about a better balance in the time profile of banks' deposits and lending structures. Some lending rates were also raised and the opportunity was utilised to rationalise the lending rate structure as a whole. In this context, it may be recalled that the maximum rate on advances

---

* The major developments in the banking field in India during the year ended June 1981, as highlighted in the Report on *Trend and Progress of Banking in India 1980-81* published by the Reserve Bank, are summarised here.

was raised by three percentage points in September 1979. The measures of raising the cost of credit were designed to buttress the various other measures taken to restrain credit growth.

In the sphere of deployment of credit, banks have to go a long way towards meeting the national targets. For instance, in March 1981, priority sector advances formed 33.6 per cent of total credit—a level which was only marginally higher than the target of 33.3 per cent set for March 1979 and much below the stipulated target of 40 per cent to be reached by 1985. Planned efforts to reach progressively the priority sector target by 1985 are, therefore, necessary. Similarly, in regard to the other national target, namely, that of deployment of 60 per cent of the total deposits mobilised by the banks from rural and semi-urban areas in the respective areas, the progress so far has been rather slow; by end-December 1980, the public banks had achived a credit-deposit ratio of 54 8 per cent for their rural branches and 48.9 per cent for semi-urban branches.

Although considerable experience has been gained in the area of credit planning, it is necessary to stress that much progress needs to be made by banks towards translating macro target into micro decisions. In this context, the credit budgets of individual banks assume greater operational significance. Sustained efforts on the part of banks to improve the quality of these budgets are called for so as to achieve the longer-term sectoral and sub - sectoral targets, which have been clearly defined, without infringing the macro-guidelines for regulating total credit expansion. Incrasing the share of priority sectors in total credit and within the priority sector advances, paying greater attention to the credit needs of the underprivileged sections of the society, most of which have been identified in the 20-Point Economic Programme, necessarily implies detailed planning. This requires focussing not only on the basic strategy of total credit deployment but also on the details of its tactical implementation. Moreover, these inter-sectoral and intra-sectoral targets of credit deployment have to be reached in the overall framework of credit discipline as envisaged from time to time. In particular, the banks are expected to use the quarterly operating limits for major borrowers as a major instrument of planning the more purposefull use of credit. In all of these areas, banks will have to display in the coming years greater innovative ability and adapt their practices, procedures and techniques of lending to the new tasks.

Deposit growth : The pace of deposit accretion, which was slow in the first quarter of the year, picked up from October 1980 onwards. Aggregate deposits increased by 20.4 per cent or Rs. 6,807 crores during 1980 81 (July-June) which was higher than the growth of 16.4 per cent or Rs. 4,706 crores recorded in the previous year. A significant rise in real national income in 1980-81, larger credit expansion and sizeable primary money creation were the factors responsible for bringing about a higher deposit growth. Accretion to demand deposits of Rs.1,551 crores or 23.5 per cent in 1980-81 was larger than that of Rs. 407 crores or 6.6 per cent in 1979-80 and that of Rs. 1,300 crores or 26.6 per cent in 1978-79. Accretion to time deposits in 1980-81 at Rs. 5,256 crores was also larger in amount than both that of Rs 4,299 crores in 1979-80 and that of Rs. 5,058 crores in 1978-79; the rate of growth of 19.6 per cent in 1980-81 though higher than that of 19.1 per cent in 1979-80, was lower than that of 22.0 per cent in 1978-79.

Credit trends : The expansion in total bank credit (excluding bills rediscounted with the RBI but including credit extended through issue of PCs) during the year at Rs. 4,332 crores or 19.6 per cent was much larger than the expansion of Rs. 2,381 crores (+ 12.1 per cent) in 1979-80. It was the net result of a large increase in non-food credit of Rs.4,529 crores (+23.0 per cent) and a decline of Rs. 197 crores in food credit. In 1979-80, the increase in non-food credit was Rs. 2,967 crores (+17.8 per cent) and was partly offset by a decline of Rs.586 crores in food credit. The increased credit requirements of petroleum companies in the wake of a substantial rise in international oil prices were responsible for part of the non-food credit expansion.

Credit policy : In the context of the persistence of inflationary pressures, the high level of liquidity in the economy and the deteriorating foreign exchange position, the thrust of monetary and credit policy during 1980-81 continued to be one of caution and restraint. Banks were advised that since they would be facing the usual seasonal increase in the demand for credit, there was need for them to plan their resource use so that they were able to avoid, in the second half of 1980-81, recourse to any additional support from the Bank beyond the refinance facilities already established. While no specific ceilings in respect of incremental ratio or magnitude of credit, expansion were stipulated, banks were reminded that they were required to operate within their own resources. Access to the established refinance and rediscount facilities would be only for short periods and subject to the maintenance of the stipulated CRR and the SLR.

RBI's accommodation : The impact of tighter credit policy is clearly reflected in the shrinking of the total accommodation provided by the R B I to banks. With certain changes in the refinance policy during the preceding months such as the increase in the base level from Rs. 2,000 crores to Rs. 2,200 crores for calculating the food refinance entitlement with effect from April 1980, termination of the refinance facility under 'Small Farmers' Window' with effect from July 1,1980 and also discretionary refinance being made available only for short periods and under exceptional circumstances, the Reserve Bank's accommodation to banks continued to decline during 1980-81. The special scheme for refinance against loans for import of capital goods was discontinued with effect from July 1, 1980. To avoid any disruption, however the facility was phased out gradually. In the case of refinance against export credit, change in the base year from 1978 to 1979 for the computation of export refinance entitlement with effect from April 1981 was effected to make the banks provide with their own resources export credit up to the levels of the earlier years and provide the refinance only against their incremental export credit. Taking into account refinance (excluding special refinance against shipping loans, import of capital goods, duty drawback and refinance to RRBs) and rediscount together, the total R B I accommodation showed a substantial decline of Rs. 128 crores between end-June 1980 and end June 1981.

Priority Sectors : Advances to priority sectors increased by Rs. 1,756 crores (26.1 per cent) as against Rs. 1,340 crores (24.9 per cent) in the previous year. Advances to agriculture and small-scale industries rose by Rs. 806 crores (29.1 per cent) and Rs. 595 crores (22.6 per cent), respectively, as compared with Rs. 604 crores (27.9 per cent) and Rs. 458 crores (21.0 per cent), respectively, in the previous year. Banks were advised about the acceptance of the recommendations of the Working Group on the Modalities of Implementation of the Priority Sector Lending and 20-Point Economic Programme. The banks were asked to endeavour to attain the following targets : Priority sector advances should constitute 40 per cent of aggregate bank advances by 1985.

In achieving the target of 40 per cent of total lending to the priority sector by 1985, banks should aim at ensuring that a minimum of 40 per cent of the additional credit every year flowed to the priority sectors. Subject to this minimum, the banks whose ratio is presently below 40 per cent will have to work out the additional amounts to be disbursed in the prioriiy sectors every year so as to progressively reach the target of 40 per cent by 1985. Forty per cent of the priority sector advances should be earmarked for agricultulture and allied activities. This would mean that the advances to the agriculrural sector would be at least 16 per cent of the total advances by 1980. Direct advances to weaker sections in agriculture and allied activities should reach a level of at least 50 per cent of the total direct lending to agriculture (including allied activities) by 1985. Advances to weaker sections in small-scale industries should constitute 12.5 per cent of total advances to small-scale industries by 12.5 per cent of total advances to small-scal industries by 1285. On December 8, 1980 the RBI communicated to the banks its decision of the recommendations of the Working Group constituted in April 1979 to review the system of cash credit.

Rural lending : Another area of concern in banking development is the low credit deposit ratio in certain rural areas giving rise to the apprehension that rural branches might become the conduit for the flow of resources from rural to urban areas. Hence public sector banks were advised that by March 1979 the rural and semi-urban branches separately should achieve a credit-deposit ratio of at least 60 per cent. Though this was a national target banks were asked to ensure against wide disparities in the ratio between different States and regions. For the banking system as a whole, the all-India credit-deposit ratios for rural and semi-urban branches as of December 1980 were 57.2 per cent and 48.9 per cent, respectively; this was higher than the ratios of 54.4 per cent and 47.2 per cent, respectively, recorded at the end of June 1979.

Branch expansion : The focus of the branch licensing policy continued to be on expansion of banking facilities in the areas with population per bank office higher than the national average of 20,000 as at the end of June 1978 and reduction of inter-State and inter-district disparities in this regard. The process of allotment of rural and semi-urban centres identified by the various State Governments for locating the additional branches to be opened contineed during the year. Since January 1, 1979 till June 30, 1981 authorisations for opening 8,990 offices in rural and semi-urban areas were issued to banks. The relatively underbanked States like Assam, Uttar Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and West Bengal continued to receive special attention; out of the total authorisations issued for opening offices in rural and semi-urban areas, referred to above, 5,754 authorisations, forming 64 per cent of the total, were in respect of these States.

As of June 30, 1981, banks were holding authorisations for opening offices at 5,366 centres. Instructions were issued to the banks to ensure that arrangements for opening offices at all the rural and semi-urban centres for which they were holding authorisations were finalised positively before the end of June 1981 so that any carry-over beyond 1981 would be avoided. During the period July 1980 to June 1981, the total number of offices of commercial bank, rose from 32,419 to 35,706. During 1980-81 the banks opened 3,291 offices as against 2,224 offices in the previous year, i e. from July 1979 to June 1980.

Regional Rural Banks : Twenty nine new RRBs were set up during the year — 12 in Uttar Pradesh, three each in Bihar, Madhya Pradesh and West Bengal, two each in Assam and Orissa and one each in Andhra Pradhesh, Jammu and Kashmir, Manipur and Rajasthan. With the setting up of an RRB in Manipur, it becomes the eighteenth State in the country where RRBs have so far been established. The total number of the RRBs functioning in the country at the end of June 1981 was 102 covering 172 districts spread over 18 States, as against 73 RRBs covering 130 districts in 17 States as at the end of June 1980. The RRBs now cover six out of 10 districts of Assam, 14 out of 16 districts in West Bengal, 10 out of 13 districts in Orissa, 25 out of 32 districts in Bihar and 30 out of 56 districts in Uttar Pradesh. The programme under the Sixth Five Year Plan is to have 170 RRBs covering 270 districts by March 1985. As at the end of June 1981, the number of, branches of the RRBs stood at 3,598 as against 2,678 a year before. The deposits and advances of 84 reporting RRBs aggregated Rs. 223 crores and Rs. 274 crores, respectively, as on the last Friday of March 1981, as against Rs. 140 crores and Rs. 168 crores, respectively, reported by 65 RRBs as on the last Friday of March 1980. Advances to small marginal farmers, landless labourers and rural artisans amounted at end-December 1980, to Rs. 157 crores, and formed 69.2 per cent of the total advances, as against Rs. 115 crores or 68.6 per cent at the end of June 1980.

PUBLIC SECTOR

Record Turnover and Profit by Indianoil

INDIANOIL earned a post-tax profit of Rs. 80.65 crores during 1980-81 after providing for interest, depreciation and tax as against Rs. 73.43 crores earned in 1979-80. The turnover jumped by 1234.59 crores in 1979-80 to Rs. 5710.94 crores in 1980-81. In terms of the sales turnover Indianoil continued to be the largest commercial undertaking in the country and the 94th largest company in the world outside the USA.

Disclosing this at a press conference held in Bombay recently, Mr. C. R. Das Gupta, Chairman of Indian Oil Corporation, explained that the pre-tax profit came down from Rs. 127.68 crores to Rs. 108.15 crores mainly on account of shut-down of the Barauni Refinery for 10 months during the year due to the Assam agitation. The Corporation, however, could achieve the highest post-tax profit so for, because of the reduction in the income tax liability for the year under the tax reliefs available with the commissioning of the Viramgam-Mathura pipeline costing Rs. 112.30 crores.

Keeping in view the increased post-tax profit earned, the Corporation has declared a record dividend @ 14 per cent as against 12 per cent declard last year, the Chairman said. With the contribution of Rs. 11.50 crores as dividend this year, the cumulative contribution to the Exchequer on this account so far works out to Rs. 95.41 crores. The Corporation has paid uninterrupted dividend since 1966-67. The Directors have recommended issuance of bonus shares in the ratio of one bonus share for every two shares by capitalising a sum of Rs. 41.09 crores from the General Reserves.

The sales turnover during the year stood at 18.35 million tonnes (excluding sales to I B P and exports). Materialisation of demand for products during the year was lower than expected, the demand having gone up by a nominal 3 per cent over the previous year, reaching a figure of 30.94 million tonnes. Indianoil's market participation came down to 59.3 per cent from 60.8 per cent achieved last year, which was in keeping with the Government's policy to increase the market share of other oil companies.

The four operating refineries of the Corporation processed 10.4 million tonnes of crude oil as against 12 million tonnes in 1979-80, resulting in a shortfall of 14 per cent compared to last year. The shortfall was mainly due to the adverse impact of the continued Assam agitation on operations of the Gauhati and Barauni Refineries and the reduced availability of crude oil to Haldia refinery. The Chairman explained that due to the Assam agitation, the 3.3 million tonnes refinery at Barauni and the one million tonnes refinery at Bongaigaon, which are both fed on crude oil from Assam, remained completely shut down for nearly 14 months from December 1979. To meet the country's demand and maintain the supply system, massive imports over 7 million tonnes of petroleum products had to be organised as against 4.5 million tonnes in the previous year. Among other things, these heavy imports imposed a severe strain on the available port facilities in the country.

There has been some moderation in the total demand for petroleum products in india. The growth rate level of 10.6 per cent witnessed in 1978-79 came down to 5.8per cent in 1979-80 and to about 3 per cent in 1980-81. The overall availability situation of petroleum products in all parts of the country had registered marked improvement. Domestic crude production, which was 10.5 million tonnes in 1980 81 is expected to go up to 16.3 mllion tonnes in the current year including 8.4 million tonnes of Bombay High crude. By next year, the production is slated to go up further to 20.6 million tonnes including 12.3 million tonnes of Bombay High crude. On present indications, the Bombay High crude production may reach a level of 19 to 20 million tonnes by 1984-85.

Mr. Das Gupta renewed his emphasis on certain short-term measures suggested last year, viz., (a) increased production and transportation of coal; (b) improved power generation and power availability including reduced transmission losses; (c) improved rail transport availability and reduced dependence on road transportation where it is uneconomical and energy-intensive; and (d) improved port facilities and increased resort to long distance transport by railways.

The Chairman said that Mathura refinery was in its final stages of completion and was expected to go on stream by November this year. At the full-rated capacity of 6 million tonnes expected to be reached in this refinery by 1982, the Corporation's refining capacity will reach the level of approximately 20 million tonnes, taking the country's total refining capacity to 37.8 million tonnes, he added.

The Chairman mentioned that the Viramgam-Mathura section of the Salaya – Viramgam – Mathura crude oil pipeline laid at a cost of Rs. 231 crores was commissioned in March 1981. Since then, Mathura refinery has already received crude oil in its storage tanks, he said. The installed capacity of the pipeline is 7 million tonnes per annum.

As against the country's projected demand of 33.6 million tonnes of petroleum products during 1980-81, the demand materialised only for 30.94 million tonnes, with an increase of 3 per cent over the previous year. While the total sales of Indian Oil Corporation during 1980-81 went up to 18.35 million tonnes, the market participalion declined to 59.3 per cent as against 60.8 per cent during the previous year because of the Government's policy to increase the market share of the other oil companies.

DCM Achieves Higher Sales, Profit

THE Delhi Cloth and General Mills Co. Ltd. recorded an impressive increase in its sales and profit during the year ended June 30, 1981. From Rs. 309.59 crores last year, the "sales of products and other income" of DCM rose to Rs. 388 37 crores in 1980-81. The company's gross profit in 1980-81 amounted to Rs. 24.05 crores, against Rs. 12.03 crores in 1979-80. The dividend recommended is 15 per cent. Expansion and diversification plans under consideration cover the caustic soda and PVC plants at Kota, the sugar plants, the distillery plant, the foundry plant, a mini cement plant at Kota and a mini computers plant at Delhi. A major diversification plan pertains to investment by DCM in the shares of a new company for the manufacture of light commercial vehicle planned to be set up in Uttar Pradesh.

The sales of the textile units rose from Rs. 78.4 crores to Rs. 109.6 crores and those of vanaspati increased from Rs. 82.2 crores to 92.1 crores. Fertiliser sales improved from Rs. 36.7 crores to Rs. 58.4 crores. The sales of the sugar units rose from Rs. 31.5 crores to Rs. 34.9 crores. The sales of chemicals recorded an increase from Rs. 30 crores to Rs. 41 crores. There has been a slight decline in the sales of DCM data products due to competition in the field of computers.

GST Declares Higher Dividend

THE performance of Gujarat Steel Tubes Limited improved further in 1980-81 as compared to that of the previous year. The turnover was Rs. 52.61 crores—up 51 per cent — as compared to Rs. 34.76 crores in the previous year. Gross profit has gone up to Rs. 3.25 crores as against Rs. 2.39 crores in the previous year, representing an increase of 36 per cent. Despite inadequate supplies of Hot Rolled coils/skelp from the indigenous plants, the company could step up production by 48 per cent during the year under reivew by importing large quantities of Hot Rolled coils. The FOB value of pipes exported went up by 54 per cent, enabling the company to regain its position as the largest exporter of steel pipes. Production of precision tubes more than doubled during the year under review.

The company has decided to set up manufacturing facilities for producing precision tubes on a large scale in a new building, construction of which has commenced. The capital outlay for the project will be Rs. 5.20 crores and the company proposes to issue secured convertible debentures of Rs. 5 crores to finance this project. The Company declared, during the year, a bonus issue in the ratio of one for every existing equity share by capitalising a sum of Rs. 1.80 crores out of the general reserve. The net profit of the company is Rs. 99.53 lakhs (Rs. 124 90 lakhs). The Dircetors have recommended an increased dividend of Rs. 24 per equity share.

MISL Achieves Record Turnover in 1979-80

MYSORE Sales International Limited achieved a record turnover of Rs. 34 crores in the year ended March 30, 1981. This is the highest sales turnover achieved by the company in its 14 — year history. The demand for the company's products and service continued to be buoyant during the year, resulting in an overall growth of 58 per cent. The company's export turnover topped Rs 10 crores. Its detergent ("Point" Powder) exports touched a new high.

Largely as a result of streamlined efforts at Karnataka Soaps & Detergents Limited, the quality and supplies of soaps and detergents improved. In turn, the company carefully chalked out a programme of marketing, resulting in a domestic sales achievement of Rs. 15 crores. Lottery sales crossed the Rs. 6.1-crore mark in 1980-81. LEKHAK notebooks and paper sales continued to expand and the turnover in this area is sure to improve further with regular and timely availability of subsidised paper. There was general improvement in the performance of the company in other areas as well, including the Bangalore Air Cargo Complex and Shipping.

Marked Increase In IDL's Turnover

IDL Chemicals Limited recorded a turnover of Rs. 34.45 crores dur-the year ended June 30, 1981, compared to Rs. 28.36 crores in the previous year. The net profit (before depreciation and taxation) was Rs. 3.21 crores, against Rs. 3.10 crores in 1979-80. The directors have recommended a dividend of Rs. 1.20 per share against 80 paise in 1979-80. The output of detonators have gone up to 124.58 million (113.64 million). The production of detonating fuse at 10.97 million meters (12.15 million meters) and explosives at 16,401 tonnes (17,588 tonnes) was lower this year due to an accident in the PETN plant during the year and the glut in the market for explosives on account of imports by the Government.

MIT Laboratories, the pharmaceutical division of the company at Bangalore, had an impressive turnover of Rs. 3.77 crores (Rs. 2.51 crores). The company's proposal for putting up a PETN plant at Bhiwandi, Maharashtra, is taking shape and it is expected to materialise during this year. During the year, the company's exports were of the order Rs. 82 lakhs, comprising Rs. 47 lakhs on account of explosives accessories Rs. 35 lakhs on account of pharmaceuticals.

The first phase of the company's joint venture through Rajasthan Explosives & Chemicals Limited, Dholpur went into production in March, 1981. ASTRA-IDL Limited another joint venture in Bangalore, has establied manufacturing facilities for drugs and pharmaceuticals in record time and it is expected to commence production before the end of 1981. This new Company is also proposing to go in for a public issue in early 1982. During the year, the company has promoted, in association with West Bengal Industrial Development Corporation, another joint venture company under the name of Eastern Explosives & Chemicals Limited in Suri, West Bengal, for the manufacture of explosives.

AVO Cables Will Help In Import–Substitution

BY end-1981, AVO Cables and Conductors Limited, the country's most modern cable firm located in Belavadi Industrial Area near Mysore, will go on stream. It will mark a major step in meeting the country's demand for special cables. At present, 60 per cent of the demand is met by imports. AVO *Cables will* save considerable foreign exchange for the country by import substitution. The company is promoted by a group of dynamic entrepreneurs led by a highly qualified engineer with 30 years of experience with leading cable manufacturers in UK and Europe. DE-Angeli Industries of Italy, pioneers in the field of cable manufacturing machinery, will provide the machinery. The proposed range of AVD Cables includes coaxial cables, TVRS cables, Poly tetra fluoro ethylene (P. T. F. E) insulated equipment wires, Uni Vynyn cables, single and multiple shot firing cables, ignition cables and low frequency wires and cables — all manufactured under strict quality control.

46 per cent Rise in TELCO's sales

DURING the first half-year of 1981-82, the sales of the Tata Engineering and Locomotive Company Limited registered an increase of 45.7 per cent in its sales. The sales rose from Rs. 214 crores in the first half of 1980-81 (April-September) to Rs. 311 crores in 1981-82. The production of vehicles increased from 14,176 to 20,357, representing a rise of nearly 44 per cent. The gross profit (before depreciation, interest and tax) rose from Rs. 30.10 crores to Rs. 39.87 crores. The net profit improved from Rs. 9.20 crores to Rs. 14.70 crores, showing a growth of nearly 60 per cent.

The improved results during the first half of the year are due to the installation of the company's own power generating capacity at Jamshedpur and Pune, as also the improvement in the availability of power from Damodar Valley Corporation. Exports during the first half of the year were lower at Rs. 14.44 crores, mainly on account of labour unrest and the congestion at the ports. The inflation in our country is also making it increasingly difficult to face competition in the international markets. In spite of these difficulties, the Company expects that export turnover during the current year will exceed last year's figure. During the next six months, the Company will get the full benefit of the substantial expenditure incurred on its expansion and indications are that the Company's turnover for the year will exceed Rs. 800 crores.

Blow Plast Diversifies Into Field of Toys

BLOW Plast Ltd. and its wholly owned subsidiary Company V.I.P. Industries Limited, have achieved a consolidated turnover of Rs. 18.44 crores duriug the year ending July, 1981, which represents a substantial increase of 32.6 per cent over the previous year. The consolidated profit before tax and depreciation of the two companies amounted to Rs. 2.17 crores as compared to Rs. 1.11 crores during the previous year. After providing for depreciation of Rs. 50 lakhs (Rs. 31 lakhs) and taxation of Rs. 25 lakhs (Rs. 12 lakhs) the two companies have added Rs. 1.67 crores (Rs. 68 lakhs) to their net worth. The subsidiary company, V. I. P. Industries Ltd. (which changed its name during the year from Aristo Plast Limited, achieved a gross profit of Rs. 1.39 crores (Rs. 61 lakhs). After providing for depreciation and with no tax liability as in the last year, the net profit has shown an impressive an increase to Rs. one crore (Rs. 69 lakhs).

Exports during the year crossed the Rs. 1-crore mark. Rupees 92 lakhs worth of V. I. P. luggage were exported during this period. Blow Plast Ltd. has export orders on hand amounting to Rs. 3 crores. The factory at Nasik is poised for a substantial expansion during the current year. The Company has set up a very modern moulding unit at Jalgaon which will commence production during 1980-81. Blow Plast, which had successfully launched the new, exclusive range of handcrafted leather luggage under the brand name of "VIP Solitaire" during the year 1979 80, has now recently launched a new and exciting range of toys under the brand name of LEO.

Morarji Mills Sells More but Earns Less Profit

ALTHOUGH the sales turnover of the Morarji Goculdas Spinning and Weaving Co. Ltd., during the year ended June 30, 1981 was higher at Rs. 65 crores (against Rs. 44.71 crores in 1979-80) and the gross profit also stood higher at Rs. 5.22 crores (against Rs. 4.58 crores in 1979-80), the net profit, after tax, stood lower at Rs. 1.66 crores, compared to Rs. 2.38 crores in 1979 80. The directors have recommended an equity dividend of Rs. 15 per share, taxable. The company has also issued bonus shares in the ratio of one share for existing two shares. With a view to supplementing its working capital requirements, the Company is issuing non-convertible debentures of Rs. 2.50 crores, carrying an interest of 13.5 per cent per annum.

Printed by K. N. Subrahmanya at Economic Printers (owners: Southern Economist Private Limited) 107, Subedar Chatram Road, opp. Kino Theatre, Seshadripuram, Bangalore-560 020 published by Mrs. Susheela Subrahmanya at 106-108, Saleh Ahmed Building, Infantry Road, Bangalore-560 001 Editor: K. N. SUBRAHMANYA

SOUTHERN
ECONOMIST

November 15, 1981

25 NOV 1981

CONTENTS

EDITORIALS 1
APC Under Pressure; Dithering on Colour Television

CURRENT TOPICS 3
OPEC Accord: Oil Self-sufficiency; Another Sugar Crisis? Policy for Edible Oils

How to Avoid a Nuclear Confrontation 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Rationalisation of Indirect Taxes: Critique of Jha Committee's Findings
By V. K. R. V. Rao

SURVEY OF ANDHRA PRADESH ECONOMY *(Page 13 to 31)*

BOOK REVIEWS 35
Shortcomings of India's Export Policy

BANKING WORLD 37
Role of Exim Bank in Boosting Exports
By V. Agnihotri

COMPANY NOTES 40
Larsen & Toubro; TISCO; Associated Cement; Tata Chemicals; Supreme Industries

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

APC Under Pressure

WITH the *kulak* lobby getting more vocal about the pricing of agricultural products, the Agricultural Prices Commission, which recommends support prices for major crops, is coming increasingly under pressure to attune its methods to the farmers' needs. Mr. Randhir Singh, acting Chairman of APC and a leading lobbyist for the farmers, has recently expressed himself in favour of (a) increasing the farmers' representation in APC and (b) widening the scope of the Commission to include the pricing of agricultural inputs. From the way most of the prices recommended by APC in the past were revised upwards by the Government, Mr. Singh concludes that the Commission is not working in the best interests of the farmers.

The ruling party, of which Mr. Singh is a leading member, should not be hustled into following his suggestion to change the character of APC. For one thing, it is not within the powers of any single organisation to cover the whole gamut of pricing since the prices, in the ultimate analysis, are governed by market forces. And APC's task is largely confined to recommending the floor price — the price which covers the cost. So long as Indian agriculture remains something of a gamble, a modicum of protection by way of the announcement of a support price is justified. This also prevents violent shifts in the cropping pattern. True, in certain years, the prices at which the agencies of the Government procure an agricultural product will be much lower than the prevailing market rate — as it happened in the case of wheat this year. When that happens, the farmer sells less to these official agencies and more in the open market. The very fact that, even in an year of bumper wheat crop, the Government had to import about 15 lakh tonnes of wheat to make up for the shortfall in procurement testifies to the clout that the farmer has come to acquire.

Price parity as between agricultural products and industrial product is a goal worth striving after. But Mr. Singh is being unrealistic in suggesting that an official body like APC will be in a position to strike a neat balance between the two sectors. Where costs are not amenable to measurement, as in the vast area of subsistence farming, the major ingredients of cost comparison will be missing. And, to the extent that what is produced in the agricultural sector is purchased within this sector (by the landless, for instance) the goal of price-parity is self-defeating.

As for the pricing of agricultural inputs like fertilizers, pesticides, farm machinery and so on, APC will be powerless to have any influence on their pricing. It is not within the competence of this body — even assuming an enlarged role for it—to go into the production costs of these inputs. Subsidisation is a different proposition and once the spokesmen of the farmers accept the principle of subsidisation, they will be not only weakening their case for parity but also will be committing themselves to selling the product at administered prices. Our point, simply, is not that farmers do not deserve a better deal, but that APC cannot be used as an instrument to achieve loftier objectives. No less an authority than Dr. A.S Kahlon, former Chairman of APC, has emphasised the need to maintain reasonable procurement and issue prices as an anti-inflation measure. Surely, one cannot accuse Dr. Kahlon as being antagonistic to the farmers' interests. About Mr. Singh's other suggestion, namely, enlarging the membership of the Commission to five, in addition to the Chairman, and giving greater representation to farming interests, we feel that a change in the character of this body along these lines may tend to detract from its credibility. The Commission is not a farmers' lobby. It has to keep in mind consumers' interests as well.

Dithering On Colour TV

THE last word has not yet been said on the introduction of colour television in India. One is not even sure that the forth-coming Asian Games will be televised in colour. Considering that colour TV has its enthusiasts in high places, the battle is unlikely to be given up easily. Mr. Vasant Sathe, Information Minister, who is the foremost advocate of the project, is still hopeful of converting his colleagues to his way of thinking.

Meanwhile, the decision of the Department of Electronics to permit the manufacture of glass shells for black-and-white sets, with an investment of about Rs. 35 crores, has caused a set back to Mr. Sathe's pursuit. The Electronics Department's decision may have been prompted by the surge in the demand for glass shells from the existing TV manufacturers but if the country is going to change over to colour TV sooner or later, the Rs. 35-crore investment will be a waste. The Department could well have waited till the inter-departmental committee, which was examining all aspects of switching over to colour TV, finalised its findings. The Department also seems to have overlooked the fact that the Government is committed to transmitting the Asian Games in colour, the cost of which is estimated at Rs. 31 crores. Already, the Information Ministry has finalised arrangements for the purchase of four outdoor (colour) broadcasting vans for the coverage of the Games.

Colour TV was the subject of heated discussion in the Lok Sabha in June last year. During the debate, Mr. Vasant Sathe argued that the black-and-white TV technology is rendered obsolete by the advent of colour technology and pointed out that most Asian countries have switched over to colour TV. Even the black-and-white studio equipment is hard to obtain, Mr. Sathe pointed out during the debate. As to the cost, there was divergence of views, with the opposition leaders mentioning the figure of Rs. 300 crores and with the Information Minister asserting that it would be only around Rs. 34 crores. Mr. Sathe clarified that, while converting the existing nine centres would cost Rs. 34 crores, coverage of all the electrified villages through satellite TV, in colour, would cost Rs. 300 crores.

More important than the overall cost of colour TV to the Government is the cost of the TV set to the average viewer. According to the inter-departmental working group's calculations, a colour TV set will cost around Rs. 8,300, against Rs. 3,000 to Rs. 4,000 for the ordinary black-and-white set. The same working group has also estimated that the demand will go up from 10,000 sets in the year of its introduction (hopefully) in 1984, to 2.27 lakh sets in 1990. At that production level, manufacture of colour TV sets will be probably economical but, as Mr. N. L. Krishnan, Executive Director of BEL, pointed out some time last year, the demand for colour TV sets in the next three years will be of the order of only 60,000. According to Mr. Krishnan, the economic level for manufacturing colour TV tubes is 3 lakh units.

Mr. Vansant Sathe however thinks that the cost of colour TV sets can be brought down through (a) planning adequate capacity by including export production; (b) reducing the existing tax incidence of 60 per cent and (c) the introduction of commercials. It has also been argued that the cost of producing colour programmes will not be four times that of black-and-white TV. Against the assumed cost of Rs. 25,000 per hour, the cost could be as low as 9,500 which is not much compared to the cost of Rs. 8,000 for producing programmes in black-and-white.

Be that as it may, television has come to Bangalore during an awkward pause in this "black-and-white *versus* colour" debate. The Information Ministry could not have done greater disservice to the Bangaloreans than giving them a relay facility. How the Madras and Bombay programmes will go down with the viewers here is of lesser importance than what they have to do with their newly-acquired black-and-white sets (costing anywhere from Rs. 3,000 to Rs. 5,000) when colour TV is introduced in the country. Since conversion of these sets to receive colour transmissions is not feasible, technically, the owners of the black-and-white sets are confronted with the problem of how to dispose them of, later. If colour television is even a remote possibility, the Bangaloreans will be well advised not to go in for the black-and-white sets that are being retailed with high pressure salesmanship — at least not till the Government takes a decision, one way or the other.

CURRENT TOPICS

OPEC Accord : Respite On Oil Front

THE outcome of last month's meeting of OPEC, held at Geneva, represents a truce between the "hawks" and the "doves" among the oil exporting nations. The meeting resulted in the fixing of the base and ceiling prices for the crude sold by OPEC members. Barring unforeseen political developments, oil prices are expected to move within the base and the ceiling which are fixed at $ 34 and $ 38 a barrel respectively, till the end of 1982. For a cartel, the base price is of significance in a falling market since the members are bound not to under-sell the product and, so long as there is a glut, the ceiling price is of academic interest since there will be no one to buy above the ceiling. But the difference of $ 4 can be availed of by countries which produce above-average quality crude.

The net effect of OPEC's decision will be a 1 to 2 per cent increase to the buyers, a $ 2 boost to "doves" like Saudi Arabia and a similar climb-down to the "hawks" like Libya, Algeria and Nigeria which had priced their product around $ 40 and $ 41 per barrel. From the discounts that were offered by high-priced producers, it will not be surprising if they come down to OPEC's base price rather than stay at the ceiling, quality notwithstanding. Whether Saudi Arabia, the largest producer within the OPEC cartel, can make its base price ($ 34 a barrel) stick for any length of time depends on (a) the extent to which it can cut its own production and (b) the rate of growth in global demand for oil.

The decisions of OPEC are, in fact, linked to Saudi Arabia's oft-proclaimed assurance to the members that it would drastically reduce production from the present level of 9.5 barrels a day. Considering that the world's "surplus" is anywhere between 3 and 4 million barrels a day, the Saudis will have to cut their production to the same extent in order to impart firmness to oil prices. They can afford to effect such a reduction since they have an embarrasingly large BOP surplus but their commitments to the traditional western clients may prevent them from slashing production beyond two million barrels per day. Again, if Iran and Iraq, which are today producing well below their normal output level, raise their production by something like 3 million barrels a day, the likely production-cut by Saudi Arabia will be wholly neutralised.

The fact is, most oil producing countries outside the Arabian peninsula need money to finance their development plans. As such, they will be producing crude at peak levels irrespective of whether their oil wells dry up in ten years' time or 20 years' time. Their strategy is to diversify their economies as fast as they can, before their oil wealth gets fully depleted. There is thus a divergence of interest among the OPEC members on the question of manipulating supplies in order to keep prices high. This is an indication of a weakening of OPEC as a pricing cartel but those who predict that it will break up in the foreseeable future will be proved wrong. Petroleum being a non-renewable source of energy, gets depleted over decades without any matching reduction in demand. Even assuming a deceleration in the growth of demand for oil caused by (a) the adoption of efficient techniques of using oil; (b) switch-over from oil to other fuels and (c) the general resistance to high prices, the world's dependence on OPEC's oil will not be reduced to a level which will cause panic among oil producers.

Two developments will not have failed to induce sober thoughts among OPEC's "hawks". First is the decline in the major consumers' dependence on imported oil. Second is the entry of non-OPEC producers into the market. Not counting the benefits that will accrue to the United States from the Alaskan oil, and also not counting the production in the communist bloc, output in countries outside OPEC is expected to reach 12 million barrels a day by 1990. Thanks to North Sea fields, Britain and Norway have emerged as exporters and Mexico has come to occupy the fourth rank among the oil producers. Others, like Egypt and Argentina, will also start contributing their share to the export market. Malaysia, India and a host of other countries have stepped up their exploration effort and many of them will have sizable surpluses of oil by the end of the eighties. Admittedly, OPEC will remain the price-leader for all these countries but the importing countries will no longer be entirely at the mercy of this oil cartel.

Oil Self - sufficiency By Sixth Plan End ?

WITH the oil discoveries made so far by ONGC, India should reach the stage of self-sufficiency by 1985-86—in theory, at any rate. But there are formidable hurdles in the way of acheiving this goal. When the Petroleum Minister, Mr. P.C. Sethi said the other day that nearly 70 per cent of the country's requirement will be met from indigenous production by 1984-85, he did not have in view the likely production in the newly discovered fields of B-75, near Bombay High, the Palk Straits and offshore Godavari. A production rate of 16 million tonnes per year has already been established and the full exploitation of the existing and newly developed fields should bring the production level to 30 million tonnes in five years' time. By 1985-86, the demand for petroleum products is expected to reach 49 million tonnes or a crude equivalent of 53 million tonnes.

Even granting that the country's production will have reached 30 million tonnes by the Sixth Plan end — this means a doubling of crude production from the present level — there will be a gap of 23 million tonnes which has to be covered by starting commercial production in the newly-discovered fields and by imports. A fair guess is that if ONGC's plans do not go awry, two thirds of the country's needs will have been met by indigenous production. The oil outlook thus appears promising. With barely 35 per cent of the oil-bearing regions covered so far, ONGC faces the challenging task of hastening the exploration work in the remaining areas.

To be sure, oil exploration work will not be held up for want of funds. The Sixth Plan allocation for ONGC's exploration and production programmes is Rs. 2,873 crores. This may be considered adequate but ONGC's success in bringing new wells to the stage of commercial production hinges on the availability of suitable platforms and other equipment needed for offshore production. The task will be rendered easier to the extent that India is able to secure the collaboration of foreign countries. France is already assisting in this task and countries like Rumania and Venezuela have also offered to collaborate in oil exploration. The immediate task facing ONGC is to intensify the exploration work in the Godavari basin, offshore, where oil was struck in September last year. The swift under-sea currents have rendered the task of further drilling difficult there. As ONGC's new Chairman, Col. S.P. Vahi, revealed, there will also be an attempt to revive "sick" wells which number 400 so that at least two million tonnes of additional oil can be pumped out of them. Furthermore, indigenous production of drilling equipment will receive a further boost when Mazagaon Docks starts producing platforms and rigs at its new yard at Nhava Island, near Bombay. The yard is designed to produce eight to ten oil platforms a year.

Contriving Another Sugar Crisis ?

THE commencement of the new sugar season has coincided with the lifting of the ban on the export of this commodity. Sugar consumers who had to pay very high prices for the sweetening agents they purchased in the open market during the current year — prices have eased somewhat in the recent weeks—are mildly surprised at this decision. Actually, the Government imported 2.15 lakh tonnes of sugar recently to ease the supply position and the stuff has not even reached the consumers yet. Since there is already a sharp fall in sugar prices due to larger releases and the expectation of a bumper crop in the 1981-82 season, the Government has withheld the release of imported sugar. With prices continuing to show a downward trend, sugar imported at $ 515 per tonne (Rs. 4,635) can only be sold at a subsidised price. And, cynics are hinting that the announcement about sugar exports is intended to cause an up-trend in sugar prices so that the Government is spared the burden of subsidised sales.

Be that as it may, the expectation of a bumper harvest of cane and record production of sugar in 1981-82 leads one to predict lower prices for sugar in the coming months. Sugar production, which had fallen to 38.59 lakh tonnes in 1979-80, improved to 51.40 lakh tonnes in 1980-81. Production in 1981-82 (October-September) is expected to be in the region of 65 to 70 lakh tonnes. Sugarcane production, which stood at around 154 million tonnes in 1980-81, is expected to reach 180 million tonnes this year, exceeding even the record production of 177 million tonnes achieved in 1977-78. Meanwhile, the Agricultural Prices Commission has recommended a higher cane price of Rs. 15.50 per quintal for the 1981-82 season, against Rs. 13 for the last season. Even a higher price likely to be announced by the Government may not satisfy the grower who will be in a position to sell the cane to the *gur* and *kandasari* sectors at prices well above Rs. 20.

With a carryover of some 9 lakh tonnes, and imported stock of about 1.5 lakh tonnes — assuming that part of the imported quantity is being released for sale to the consumer — and a production of 65 lakh tonnes, on a conservative reckoning, the quantity available this year will be 75.50 lakh tonnes. Considering that internal consumption in 1979-80 and 1980-81 was of the order of 50 to 52 lakh tonnes per year, the 1981-82 sugar year may end with a hefty carryover stock of some 20 lakh tonnes, even conceding that there will be an increase of over 5 lakh tonnes in consumption this year. These figures may seem to justify the Government's decision to resume exports but with prices falling in the world market, it will not be possible to export any sizable quantity, except at the cost of the tax payer. Another alternative is to purchase and stock some 10 lakh tonnes on Government account. The sugar industry, which is always short of funds to pay the cane grower, may welcome the buffer stock proposal but any large-scale financing of buffer stock operation will result in a widening of the budgetary gap.

Whether, in the changed situation, it is desirable to continue the system of dual pricing is a point that needs to be examined before the Government announces its new sugar policy. The policy, under which 65 per cent of the production is sold as "levy" sugar at a fixed price and the remaining 35 per cent is sold at prices dictated by the market has no doubt helped the vulnerable sections in a situation of scarcity but, when supplies are plentiful, the open market price tends to get closer to the "levy" price. When the difference reaches the vanishing point, the dual pricing policy loses its *raison d' etre*.

Respite On Edible Oils Front?

A NEW policy for edible oils is on the anvil. What shape it will take and how it will help the harrassed consumer remains to be seen. No miracle can be expected since the domestic production of edible oilseeds remains stagnant for many years now. To expect imports — in whatever quantity— to bring down domestic prices will be an exercise in wishful thinking. For one thing, production of edible oilseeds, which stood close to 90 lakhs tonnes in 1970-71, remains at about the same level while consumption must have gone up by at least 5 per cent per year. For another, production of edible oils remains stagnant at 24 lakh tonnes.

The absence of any breakthrough in edible oilseeds production may be explained by the fact that these oilseeds are mostly grown on marginal lands, under rain-fed conditions. Only 8 per cent of the area under oilseeds is irrigated. Against the base level of 93 lakh tonnes in 1979-80, the Sixth Plan envisages a target of 110 lakh tonnes of which groundnut alone accounts for 73 lakh tonnes. If one includes minor oilseeds like safflower, soybean and sunflower, the production target for edible oilseeds is of the order of 130 lakh tonnes. A major ingredient of the new strategy is to develop perennial crops like coconut and oil palm. The other aspects of the strategy are encouraging the production of soybean and sunflower, clutivation of summer groundnut in irrigated areas, increasing the production of coconut from 6,000 million nuts to 6,750 million nuts and raising oil palm plantations in regions like Kerala and Andamans.

While this strategy is likely to ease the supply possition in mid-eighties, the immediate task facing the Government is to augment supplies, in the short run. For the first time in the country's history, edible oils have emerged as a major import item, accounting for a drain of Rs. 500 crores in foreign exchange during the oil year ended October 31, 1981. In the recent past, edible oil imports have led to a good deal of abuse. Although imports of these oils are being canalised, the traders have taken advantage of the loopholes in the old policy to enter into commitments for large-scale imports of items like palm stearin, industrial grade coconut oil, palm kernel oil, beef tallow and so on. Since the ruling domestic prices are quite high for these products, the importers have been able to reap adventitious gains, even after paying excise duty at varying rates.

Although, strictly speaking, these oils are meant for industrial use, they seem to have found their way into vanaspati units and into the edible oil market *via* adulteration. Since the gap between demand and supply is anywhere around 12 lakh tonnes, these irregular imports, estimated at about 3 lakh tonnes, may have been absorbed in the market by now. The new policy, it is hoped, will put an end to the import of these items which, besides posing a health hazard, has adversely affected the indigenous production of non-edible oils. The new policy should also induce a measure of discipline among vanaspati manufacturers. Two complaints are generally levelled against the vanaspati firms: (a) they sell part of their edible oil quota (the vanaspati units get 70 per cent of their raw material requirements from the canalising agency) in the open market at higher prices and (b) they often sell vanaspati (if retail prices are any guide) at prices which are higher than those stipulated under the voluntary pricing arrangement. How these malpractices can be prevented remains to be seen.

India — The Turbulent Half-Decade

BY K. N. SUBRAHMANYA

(200 pages, Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first year's record.

Copies can be had from:
Southern Economist,
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20% discount for Subscribers)

How to Avoid a Nuclear Confrontation

By **K. N. S.**

WILL I live long enough to witness, or be a victim to, the nuclear holocaust that just may occur in the mid-80s? The answer can be an enigmatic "yes and no". The speculation may be of academic interest to persons like me who are very much on the wrong side of 50. But people who are younger and are in the prime of life have a great stake in a world which is free from the threat of nuclear annihilation. They have started articulating their hopes and fears.

Last month, some 2.5 lakh West German youth held a rally in Bonn, opposing NATO's decision to put 572 cruise and Pershing-2 missiles in West Europe by 1983. Ostensibly, the NATO move is intended to frighten off the Russians who have deployed a good number of SS-20 missiles in their part of Europe, that is, in the Warsaw Pact countries. I may add, in passing, that this is but the tip of the iceberg and that there is already a sizable weapons build up on either side of the so-called iron curtain. I may also add, for the benefit of the uninitiated, that each of these SS-20 missiles carries three 500-kiloton warheads and each warhead can inflict 30 times more damage than the bomb dropped on Hiroshima. The missiles that the NATO proposes to deploy are no less lethal and destructive.

I am rather too ill-equipped to enter into a discussion on the state of the military preparedness of the Americans and their allies on the one hand and the Russians and their satellite nations on the other. To me, these equations do not make sense but to the two sides engaged in escalating the war psychosis, it does. Whether ideology is a major motivating factor in the military build up of the Russians one cannot be sure. As the first country in the world to go communist, U.S.S.R. may be goaded by a desire to convert the world into communism, if possible, through propaganda, subversion and through proxy wars and, if necessary, through a nuclear war. But I do not think the foreign policy of the present rulers in the Kremlin is influenced by ideology to that extent.

On the other hand, ideology has less appeal today within the Soviet hegemony than it had some 30 years ago. The rulers of Russia need the intimidatory presence of a mighty military apparatus to (a) keep its disenchanted people and the disenchanted member-nations in a state of fright and (b) prevent others outside the system from subverting it. I am rather inclned to believe in this theory than in the theory of Soviet expansionism. Every action of the Russians during the post War period fits into this theory except their action in Afghanistan. This action may be considered as an error of judgement. For the rest of the century, at any rate, the Russian leaders can be expected to maintain this defensive posture with a view to preventing the system from falling apart. But the adversaries of communism should not take comfort from this fact because the decline of communism — in its present form — will not be accompanied by a polarisation in favour of the capitalist system of which America remains the lynchpin.

It is a misunderstanding of these imperceptible changes that have been going on within the Soviet "empire" that is at the root of most of the errors committed by the foreign policy makers in the United States. And, it is an understanding of this change that has prompted many countries of Western Europe to accept *detente* in good faith. Detente and SALT were manifestations of a genuine desire on the part of the west to understand the Russians correctly. But, President Reagan's policy of confrontation, through an escalation of arms build up, has not only caused a set back to this process but also brought nervous fingers close to the nuclear trigger.

The Americans are good at fighting wars — both noble and ignoble — so long as they are wars fought on other soils. They have never known a war being fought on their own soil. The geographical location of the United States — separated from the vast mainland of Eurasia by two mighty oceans — the Atlantic and the Pacific—partly explains it. The Americans are less worried over the prospect of the SS-20 missiles being directed at a few targets in Western Europe than at the prospect of the Russians closing in on them. I have a hunch that the Russians are as unpopular with the young in Eastern Europe for deploying SS 20 missiles there as the Americans are with the young in Western Europe for the proposed deployment of their Pershing 2 and cruise missiles. Sooners or later, the hawks in President Reagan's camp and the old men in the Kermlin should realise that these unpopular acts have become counter-productive.

Pershing 2 and cruise missiles are no answer to SS-20. You cannot counter a nuclear threat by dangling another nuclear weapon before the adversary. Such a policy of deterrence may have sounded logical in an era when warfare was canfined to conventional weapons but in this nuclear age, one has to devise other methods to counter a nuclear threat. What the world needs today is not strategic arms limitation but strategic arms liquidation, by stages. But I have nothing against SALT II which, given goodwill on both sides, may well mark the beginning of this process. De-escalation of the present situation calls for a series of supporting policies on either side. These policies include, on the American side, non-intervention in Latin American and African liberation struggles and, on the Russian side, the abandonment of the policy of "exporting" revolutions. The Russians should not be too averse to this process because they know that they stand to gain more through grain imports from the U.S. and the import of Western technology than through a widening of the area of their political influence through proxy wars and subversion.

Glass House Gossip

HONESTLY, I cannot foresee how the Indian political scene will look like 30 days from now or an year from now. Some by-elections — one for Lok Sabha and 16 for the assemblies in seven states — are due on November 29. This partly explains the sudden spurt of interest in opposition unity. The erstwhile constituents of the Janata Party are in a chastened mood. They have enough reasons to be, after having succeeded in bringing down their own Government through in-fighting. But people who are stabbed in the back are circumspect over the motives of the groups which are making overtures for a coming together of old friends.

In the Janata camp, Mr. Morarji Desai has adopted a cautious stance, for understandable reasons. How can he possibly embrace an adversary like Chaudhury Charan Singh who did everything in his power to topple Morarjibhai from Prime Ministership ? The others probably will not stand on prestige. Even the re-doubtable, egotistic leader of the *kisans*, Mr. Charan Singh, would very much like his Lok Dal to merge its identity with the other opposition forces but Lok Dal's credibility, like the credibility of most other opposition parties, is at such a low ebb that not many are inclined to take its overtures seriously. After all, its influence, such as there is, is confined to a few northern states. And there are cynics who say that Lok Dal's credibility will improve after its founder's retirement.

As for the Janata Party — the rump of it, to be more precise — its President, Mr. Chandra Sekhar, is under pressure to initiate the merger move. The U. P. unit of the party has already expressed itself in favour of merger with like-minded opposition parties. Being the rump of a larger party—the Janata conglomerate ruled the country for nearly 18 months — the Janata Party is entitled to demand that others can merge in it instead of Janata seeking merger with others. This, in my view, is a distinction without difference but if it satisfies the ego of some of the Janata leaders in wilderness, there should be no serious objection to making Janata again the crucible of a new opposition experiment.

Congress (S) — the 'S' stands both for socialism and for Sharad Pawar — is a different kettle of fish. To be sure, the party does not suffer from a dearth of leaders but its ideological opacity sticks out a mile. It suffers from a lack of a sense of direction. After pushing Mr. Devaraj Urs back to his state, Karnataka, the party is not even sure whether it should make common cause with the opposition or gravitate towards the ruling party, namely, Congress (I). The vague wording of the resolution it passed, in its recent Bombay session, lends support to this interpretation. There are many, in the Kerala Unit of the party, who would like to join hands with Congress (I) to form a Government in Trivandrum. However, Mr. Urs and his friends, who have yet to avenge the humiliation they suffered during the Sanjay era, are not too averse to joining hands with the other opposition parties, if only to thumb their noses at Mrs. Gandhi.

As for B. J. P., which many consider as a re-treaded version of the old Jana Sangh, the problem still remains one of projecting a secular image. Its leaders like Mr. Vajpayee know that unless B. J. P. severs its links with R.S.S., it will not be acceptable to the other major opposition groups. The B.J.P. hardliners seem to feel that they would rather go it alone than betray the R. S. S. cadres. Electoral arithmetic notwithstanding, there is a feeling among the B.J.P. leaders that so long as the Hindus form the dominant voting group, they can count on a revival of Hindu chauvinism. The worst thing to happen to a secular nation is the polarisation of political parties along the lines of religion.

This leaves the communist parties — they are three now, after Dange left CPI — which do not mind entering into opportunistic alliances for the purpose of power-sharing. During the emergency, CPI (M) extended full support to the left-leaning bourgeoisie groups, which virtually meant all the Janata constituents. At present, their influence is confined to just three states, namely, Kerala, West Bengal and Tripura. Since there is no love lost between them and the ruling party, Congress (I), the communists can be expected to throw in their lot with any opposition alliance which may be forged sooner or later.

With the best will in the world, the opposition parties—splintered as they are at present — are unlikely to influence the outcome of the by-elections due later this month. Their best hope lies in forming a single party, or forge a credible alliance, in time for the next general elections. If such an alliance is to be placed on an enduring basis, the leaders who come together to provide a viable alternative to the voters should first lay down the ground rules and observe these rules scrupulously. Power is, after all, a means to an end. Instead of focussing mainly on power-sharing they should think how best they can cleanse

Indian politics of the evils of floor-crossing, corruption and negativism.

From the way things are drifting, I am not very hopeful of any radical improvement on the Indian political scene. The drift will continue so long as (a) the political leaders in the opposition do not submit themselves to a fair measure of discipline in order to forge a united front and (b) the masses are not imbued with a keen desire for change.

□ □ □

THOSE who have predicted that Mr. A.R. Antulay will survive the media onslaught of September will now have every temptation to say: Did we not say so? Well, so far as I am concerned, the last word is not said on the Antulay affair. Those who try to hold Mr. Arun Shourie, the *Indian Express* Executive Editor, who led the Antulay expose, to ridicule — I read some petulant remarks about Shourie in Shashti Brata's latest column — may have to eat their words. The mistake lies, rather, in assuming that newspaper reports and editorial comments make or mar the fortunes of individuals. Irrespective of whether Mr. Antulay will continue as Chief Minister or whether he will be asked to resign, Mr. Shourie had the satisfaction of having exposed a bundle of shady deals.

Neither he nor scores of other editors and reporters who wrote forcefully on Mr. Antulay's fund collection drive behind the facade of several private trusts vowed to bring Mr. Antulay down. If Mrs. Gandhi thinks that her *satrap* in Maharashtra has committed no impropriety, she is welcome to keep him as Chief Minister but she cannot save him the trouble of going through the law suits pending before the courts. These cases cover a wide gamut of alleged illegal acts and improprieties and the persons who are pursuing these cases include Mrs. Mrinal Gore, Prof. Madhu Dandavate, Ramdas Nayak, R. J. Mehta *et al.*

A person placed as Mr. Antulay is, should have the good sense to project a low profile and shun limelight. Instead, Mr. Antulay continues to strike a posture of injured innocence. Secure in the knowledge that Mrs. Gandhi, who had earlier "blessed" one of his trusts, will stand by him, Mr. Antulay has sacked one more Minister from his cabinet. Mr. Baburao Kale's sacking was preceded by the dismissal of Mrs. Shalinitai Patil — his *bete noir*. As if to demonstrate that he can also bring judges round to his way of thinking, he made a handful of High Court Judges face the TV camera as he handed down a document sanctioning house sites to them. I wonder if it was proper on the part of these judges to visit Mr. Antulay's official residence to formally receive a document which had the appearance of a favour done. This only goes to show that, politicians not only debase themselves but debase others who have to do business with them.

□ □ □

MRS. Gandhi's refusal to consider the Pakistani President, General Zia-ul-Haq's offer of a "no-war pact" has provoked divergent reactions within the country. That Mr. A.B. Vajpayee, President of B.J.P., should show greater warmth in welcoming Zia's offer invests it with more than usual significance. Hard to belive, but it is a fact that, during his tenure as Foreign Minister, the relations between India and Pakistan showed definite improvement. That is all the more reason why I am inclined to give due weightage to Mr. Vajpayee's views on Zia's latest proposal.

Mrs. Gandhi's skepticism over Zia's offer of no-war pact stems from (a) the manner in which Pakistan is arming itself with U.S. assistance and (b) that country's efforts to produce the nuclear device. Why should a country which is in dire economic straits purchase billion of dollars worth of military hardware, including squadrons of F-16? Why should a country which has peaceful intentions go ahead producing a nuclear bomb? Pakistan has no convincing answers to these questions.

Even so, India will lose nothing by agreeing to a "no-war pact". The Indian public know pretty well that if at all such a pact is violated, it will be by Pakistan — and never by India. This is borne out by India's previous experience. Our refusal to agree to a "no-war pact" is likely to be interpreted by others as an indication that India is not very keen on living in peace with her neighbours. By opening a dialogue with Zia, Mrs. Gandhi will be denying him this propaganda advantage.

□ □ □

The dissidents' memorandum to Mrs. Gandhi on the Karnataka Chief Minister, Mr. Gundu Rao's alleged misdeeds and lapses looks more like a list of grievances than a serious charge sheet. Most of the charges — they number 52 — look frivolous. "Raking up the border issue", "propounding the sons-of-the-soil theory", "preferring sanskrit to Kannada","deriding *khadi*", "Renuka Rajendran's cheating case" — all these and many more — make amusing reading.

I am not an admirer of Mr. Gundu Rao at all and, frankly, I do not rate him high as a politician. This does not prevent me from saying that, may be, he is less corrupt than his predecessors. If his detractors are keen on making out a strong case for his removal as Chief Minister, they should reduce the number of charges listed in their memorandum from 52 to just 10. That should suffice.

— **Plebeian**

special articles

Rationalisation of Indirect Taxes: Critique of Jha Committee's Findings

By **V. K. R. V. Rao** *

During the post-Independence era, our taxation system was subjected to a close examination by several expert committees. Although finance ministers, both at the Centre and in the States, have implemented many of the suggestions of these bodies, the taxation system is not free from defects. Dr. V.K.R.V. Rao, eminent economist has, in this lucid talk, highlighted these defects. While endorsing some of the worthwhile suggestions of the Jha Committee on indirect taxation, Dr. Rao has opposed the proposal to merge the sales tax with excise duties. He has also forcefully pleaded for the abolition of the Octroi levy.

INDIRECT taxes consist mainly of 6 items, 2 of which are Central 3 are levied by the States, and 1 by local bodies. These are customs, excise, general sales tax and sales tax on specific commodities, Motor Vehicles tax, Entertainment tax and Octroi. I have nothing to say on the 5th item, namely, Entertainment Tax except to note in passing that it does not seem to have adversely affected the enthusiasm of the people of our state to see films, having an income elasticity of 1.88 as compared to the all-India figure of 1.15 and of 1.20 for Tamil Nadu and 1.11 for Kerala. Our kinsmen from Andhra are however, nearer to us with an elasticity of 1.32.

As regards the 6th item, namely, Octroi, there can be no two opinions about the undesirable effects it is having on production, distribution and consumption. When I was the Central Minister for Transport and Shipping, I tried my best to get it abolished but failed. Now my current successor in that position, a distinguished son of Karnataka, is making a similar attempt and I hope he will succeed. The only rationalisation that we can effect in octroi is to end it; there is no use trying to mend it. As the Jha Committee have pointed out, and I quote, "We are firmly convinced that a decision to abolish octroi should not be linked up with the finding of alternative sources of revenue". In any case the amount involved is not of a significant magnitude and surely some way can be found of getting a collective lump sum payment from those involved in this inland trade in place of the vexatious, numerous, and delay-laden character of the octroi levy, apart from the wide-spread scope it offers for both corruption and evasion.

The crux of the problem of indirect taxes lies in customs, excise, and sales tax; and they account for a preponderant share of all the revenue from indirect taxes. And their rate of growth has also been a consistent, though not an equally welcome, phenomenon. Our country occupies a conspicuous position in the international fiscal world by the weight that it gives to indirect taxes in its tax structure; and as the classical view derived from the west is not in favour of a high role for indirect taxation, I suppose we can now claim that at least in the field of public finance, we do not try to imitate the west. Apart from the heavy burden it imposes on the masses of the people, its content is such that it adversely affects both production and productivity by the concentrated attention it gives to inputs, while its effect on prices is of a cascading character, with the consumer, whether of consumer or capital goods, paying much more than what goes to the exchequer as tax revenues. Let me now refer to the Jha Committee's findings on this subject. I quote :

1. The taxation of inputs has been looked upon as an important source of revenue even after excises have acquired a univesal character.

2. In respect of excises as well as import duties, intermediate goods claim the largest share of the incidence both in the rural and urban sectors.

3. Some features of the tax structure like heavy taxation of raw materials or differential taxation of raw materials and other inputs imposed mainly to raise revenue reduce the efficiency of the system.

4. Taxation of inputs tends to encourage vertical integration, the manufacturer producing more and more of the inputs needed by him rather than buying these from ancillary Industries, (This has a double adverse effect, on both increase in employment and in decentralisation, which both work against the accepted policy of Government).

5. Import duties on inputs have become a major contributor to cascading and general escalation of costs, besides often producing distortions in relative prices.

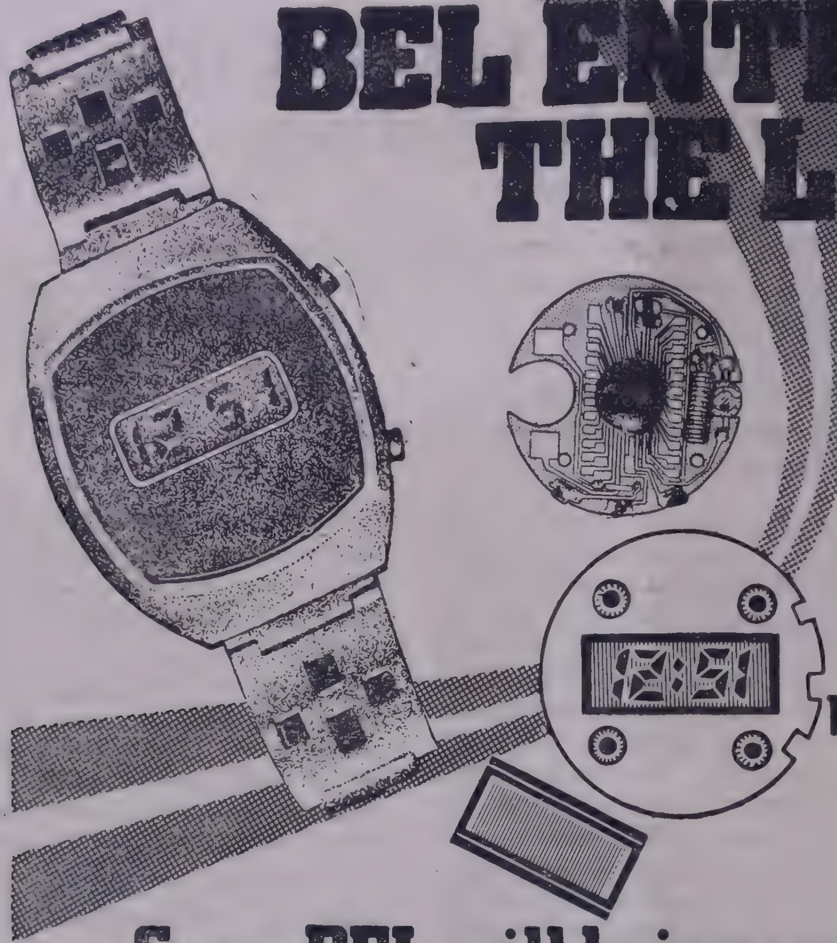
6. Taxation of inputs affects exports adversely in as much as the former becomes a part of the cost of production. (And export promotion is an accepted national objective).

7. The total burden on the consumer is usually much higher than the rates of tax imposed on final products .... Extensive taxation of inputs has caused divergence between the nominal rates on final products and the cumulative rates on them.

8. A heavy tax at the input stage also tends to be regressive. It encourages manufacturers to produce more of expensive varieties out of the same input.

---

* Excerpted from the Keynote Address by Dr. V. K. R. V. Rao at the Seminar on Indirect Taxes organised by the Federation of Karnataka Chambers of Commerce and Industry, Bangalore, on November 3, 1981.



BEL ENTERS THE LCD AGE

Computer-aided design, photolithography, thin and thick film technology—leading to high-contrast LCDs with the lowest power consumption rate ever achieved, just right for today's digital watches

Soon, BEL will bring you specialized LCDs for calculators, dashboard displays, electronic polling machines...

BEL has taken the lead again—this time by entering the field of the latest in display devices—the LCD (Liquid Crystal Display), the greatest breakthrough in electronics in recent years.

The LCD is a priority item in the manufacture of digital watches and is far superior to all existing display devices. In fact, the once popular LED (Light Emitting Diode) is now phased out in favour of the LCD. The reasons are not far to seek. A very low consumption of power, as low as a few microwatts for a watch, thanks to the liquid crystal molecules. Again, while all known displays lose contrast in high ambient light, the LCD, conversely, gains contrast, thus making it ideal for outdoor applications.

It is for these reasons that BEL LCDs should find favour with all manufacturers of battery powered systems like calculators, clocks, automobile dashboards, electronic polling machines . . . and, of course, digital watches.

Today, it is BEL's thrust in state-of-the-art technology that has placed India on the electronics map of the world.

BHARAT ELECTRONICS LTD.
(A Government of India Enterprise)
Bangalore • Ghaziabad • Pune

BEL—leaders in professional electronics

Clarion-BEL-8143

However, there is one good thing about our indirect taxes. The Jha Committee has pointed out that "As far as indirect taxes alone are concerned, despite widespread taxation of inputs, the tax burden turns out to be uniformly progressive". They admit however, that "indirect taxes fall even on the poorest sections of society" and that the effect of the taxes on sugar, foodgrains and atta is regressive with respect to total expenditure; and they agree that "a reduction on the weight of taxes on mass consumption goods such as sugar, foodgrains and kerosene would serve to increase the degree of progression in the indirect tax system".

But the taxation of inputs and the high incidence of import duties and union excise duties on the final product does have adverse effects on production and productivity. One way of dealing with this problem is to introduce the value added tax to take care of inputs and spare parts. This could be done at the manufacturing stage in the first instance in lieu of the present excise system and later extended to imports. The political and administrative arguments advanced against the introduction of a comprehensive VAT would not apply in this case. This restricted application of VAT is called MANVAT (manufacture value added tax) and, as suggested by the Jha Committee, it would be operated on the basis of four or five rates that would be applied to the vast majority of consumer products as a result of the rationalisation of the duty structure on basic raw materials and inputs. However, they have also stated—and I argee with them—under Indian conditions, to continue the present system of excises to industries in respect of whose final products not much cascading is involved as well as those whose products have to be taxed at special or at high rates for economic or sumptuary reasons, such as petroleum products, tobacco and tobacco products, sugar, coffee, tea and matches.

The more complicated and controversial problen is that of the sales tax structure. A strong demand has been voiced, particularly from the business community, for replacing the sales taxes levied by states by excise duties levied by the Centre and made available for distribution to the states on a defined basis; and to some extent, it appears to be rational in view of the prevalence of the single point sales tax at first sale when the goods are sold by the producer and is similar to the excise duty levied by the centre. It is therefore argued that it is better to accept reality and obtain the additional advantage of uniformity and administrative convenience by the introduction of additional excise duties in place of current sales taxes. I do not accept this argument. One can find other ways of replacing the sales tax at the point of production than by the levy of additional excise duties.

The sales tax is a state prerogative and it forms a part of state autonomy and the working of political democracy at the state level of government. Our system of government is a federal one and anything which takes away the existing fiscal powers of state governments, even if it is compensated by equivalent Central grants, is an infringement of the federal principle and a breach of the state autonomy given under the Constitution. I am therefore totally opposed to any suggestion for replacing the sales tax by additional excise duties. I know that I am arguing on political rather than purely economic grounds, but there is no such thing as purely economic grounds and the Jha Committee themselves have agreed that, and I quote, "A decision on the final choice regarding the future role of the sales tax system has necessarily to be political".

Moreover, as the Jha Committee have also pointed out, no excise system can become universal in coverage and that "*prima facie*, there is a strong case for preserving sales taxes in addition to excise duties on the ground that both play distinct roles".

I would therefore urge on my friends in the business community to stop supporting a plea for the merger of the sales tax with the excise duty and, instead, concentrate on reforming the sale tax system in such manner as will remove its possible adverse effect on production and productivity without at the same time abridging the role of state autonomy in this matter. In this, I am supported by the Jha Committee itself, as is evident from their considered finding on the subject which I quote: "Given our federal system and the administrative problems of enforcing VAT at the post-manufacturing stages, the right course of action is not to pursue theoretically best solution, nemely, one integrated system based on VAT principle but to adopt the second best solution of VAT applied to the manufacturing stage (to begin with) combined with a reformed system of sales taxation".

If we agree that VAT cannot be applied to the sales tax system on both political and administrative grounds, in what way can we reform the sales tax system?

1. Achievement of uniformity in sales tax legislation and procedures either by the drafting of a model law by a Central agency like the law commission or entrusting the draft of such a law jointly and by agreement among a small group of representatives from different states which could be set up by a joint meeting of the Regional Councils for sales tax.

2. More frequent and purposive meetings of Regional Councils of sales tax consisting of the Finance Ministers of the different regions for investigating and discussing matters relating to sales tax and public grievances about its operation.

I would particularly commend this suggestion to the Finance Minister of my state and request him to take the lead in activising the Southern Regional Concil of Finance Ministers not only to secure uniformity in procedures and administration but also to secure uniformity in rates and concerted action in the matter of choice of commodities for the tax, reduction or increase in rates, definitions and classification, and provision for identification and resolution of public grievences, I think that in spite of the differing political hues of the governments of southern states, the atmosphere for such consultation and operation is much better here than elsewhere in India. And the salubrious climate of Bangalore and the non-belligerent attitude of its people can provide the necessary background for the initiation of such a move.

3. I would also support the recommendations contained in the 61st Report of the Law Commission in regard to taxation of works contracts, hire-purchase transactions, as well as the enactment of a provision for facilitating and enforcing the recovery of any amount realised as tax by a private person whether as sales tax or any other tax. Professional and other service incomes especially from building contractors, hoteliers and distributive occupations, are becoming an increasingly important part of the national income and also provide a greate deal of black money. From the economic point of view, both services and commodities belong to the same genus but also to the same species, though they might legitimately get grouped under different sub-species; and I don't see any reason why service income should be kept out of the sales tax while commodities are subject to it.

4. I do not agree with the Jha Committee's suggestion for the adoption of a single point sales tax at the last stage. Apart from the harassment it involves to hundreds of thousands of small traders, it will also facilitate evasion and encourage corruption. I would therefore advocate a two point sals tax — one at the stage of wholesalers and other distributors (including the transactions where the manufacturing firm takes on itself also the task of distributing its products) and the other at the retail stage, where it should take the form of a turnover tax rather than a complex of taxes on the sale of many individual commodities, except in the case of a selected but small number of commodities, on which it may be socially and economically desirable to levy special rates of taxation. The rate of sales tax at the wholesale stage should be moderate and not alterable for a specified number of years, the turnover tax at the retail stage should be minimal, and the special tax rates on the specified small list of selected commodities should be left to be determined by broadly-accepted objectives of socio - economic policy.

So much for the sales tax. As regards the tax burden on road transport, I would agree with the Jha Commission's view that a strong case exists both on social and economic considerations for a reduction in this burden. After all, transport is the largest and most ubiquitous input that is made into the production process and it is high time that its incidence is looked into from the point of view of its effect on the quantum, speed and cost of production as well as productivity.

I would also urge strongly the need for a comprehensive collection of data on tax collections by classes, sources and other categories and an adequate monitoring, progress reporting and concurrent evaluation machinery by the institution of special cells for the purpose in the Central and state Finance Ministries. Simultaneously. I would also urge the utilisation of academic and non-political research institutions for the porpose of analysing tax yields and their relation to tax receipt potentials and the identification and progress of the variables that determine both tax yields and tax potentials. We have well-established institutions in the southern capitals in particular which can be harnessed for this purpose. Even at the risk of being dubbed a partisan, I may mention in this connection the Institute for Social and Economic Change in Bangalore which has a highly competent faculty including a Professor who is one of the foremost specialists in public finance in this country. I am sure the Institute will be glad to cooperate if our Finance Minister were to want to use its services for specialised research work relating to the problems of public finance of the state.

There can be no doubt about the need for reform of the system of indirect taxes in the country. As the distinguished ex Finance minister who inaugurated the first meeting of the Jha Committee when he was Finance Minister said, and I quote, "There is a general feeling that the historical, uncoordinated growth of excise and sales taxation has led to a complicated maze" and added: "This general feeling is somewhat confirmed by certain preliminary studies undertaken at my instance in the Economic Division of the Ministry". The Jha Committee's report has more than confirmed the preliminary finding of the Economic Division of the Finance Ministry. In fact, it has found it a maze that is the result not only of lack of coordination between excise and sales taxation but also the result of uneconomic and socially harmful policies followed by the Centre in their excise duties and by the states in their sales taxes.

The dominant consideration behind the excise duties and sales taxes seems to have been that of revenue, together with some populistic and uncoordinated attempts to use them for the fulfilment of otherwise acceptable socio-economic objectives. In the process, consideration of their effects on the production structure and its productivity, cascading costs and their domestic inflationary effects and adverse effects on export competitive capacity, the increasing divergence between what the purchaser of the final product pays and what is received by the exchequer, the proliferation of public harassment and the widening of the doors to corruption, bribery and black money, all these considerations seem to have gone by the road side.

All these considerations must be taken into account when the governments, both at the Centre and in the states, take up the question of taking some positive action on the reform of the structure aud content of indirect taxation in this country. The Jha Committee's report on indirect texation has now been before government for two years. It is true that the committee had to submit its report to the Janata Government. But it was appointed by the Indira Gandhi government and that government is back in power. The new Finance Minister is a worthy and distinguished successor to Mr. C. Subramaniam and, like him, also hails from the same state and has had experience of working as a Minister in the State Govsrnment. I hope he will give priority to the recommendations of Jha Committee and subsequent public discussions on the same and announce some concrete measures of reform of our system of indirect taxation well before the forthcoming budget sessions of the Central and state legislatures.

southern economist

NOVEMBER 1-15, 1981

ANDHRA PRADESH

A SPECIAL SURVEY

APSFC opens exciting new avenues for entrepreneurs setting up industrial units in Andhra Pradesh.

If you're an entrepreneur who has the initiative but lacks the necessary capital or a suitable site for your industry, why not let us help?

Andhra Pradesh presents excellent opportunities for industrial growth. The infrastructure is ideal for the setting up of industrial units, with plentiful power and labour, abundant raw materials, and no lack of suitable space. And, if you need financial assistance we have a wide range of facilities and loans to suit all your requirements.

Under our statewide programme for industrial development we give medium and long term loans in rupees and foreign currencies under the World Bank line of credit.

In addition loans are given on concessional terms to industrial units being established in under-developed areas of the state.

Encouraging enterprise. That's one of our aims.

APSFC —

Assistance is the compass.

Opportunities are for the enterprising

ANDHRA
PRADESH

APSFC

**Andhra Pradesh
State Financial
Corporation**

5-9-194 Chirag Ali Lane
Hyderabad-500 001

After 25 Years, Regional Imbalances Persist

By THE EDITOR

THE silver jubilee year of Andhra Pradesh, 1981, is of special significance in that the composite state that emerged after the states' reorganisation came to acquire characteristics which differed, in many respects, from the area—the princely state of Hyderabad — which formed the nucleus for the Vishala Andhra demand. This pattern is to be found only in a few states like Karnataka, Maharashtra and Kerala. The geography of the other states which went through the process of reorganisation was not altered to the same extent as in Andhra Pradesh. This has a direct bearing on economic development because, although linguistic affinity remains a plus point, putting together disparate areas with varying characteristics, resource-wise, to form a single administrative unit slows down economic progress, at least in the initial stages. In the case of some of these states, the cost of emotional integration appeared to be a bit too high compared to the economic dividends that the states' reorganisation yielded to the people who were thus grouped together.

This is not to question the rationale of the states' reorganisation on the basis of linguistic affinity but to say that a trade-off in economic terms was inveitable. Andhra Pradesh provides the case-study of a state which, even 25 years after its formation, is still grappling with the problem of regional imbalances. Some of the articles that follow analyse how the disparities among the major regions — Coastal Andhra, Telangana and Rayalaseema — still persist inspite of the best efforts of the state planners to redress regional disparities and inculcate the feeling of oneness among all the Telugu-speaking people. To quote the state's draft Sixth Plan :

> The three regions differ considerably from each other in their socio economic conditions. The coastal area is dominated by the fertile delta but ending in the north in a backward and a predominantly tribal strip. The Telengana region, rich in natural resoures, has been lagging in economic development due to historical factors. The Rayalaseema region is a chronically drought-affected area with very limited potential for agricultural development .... The position of Andhra Pradesh is such that in the list of the more advanced states, Andhra Pradesh is likely to be at the bottom while in the list of backward states, it is likely to be at the top so that it misses both present advantage that the former have by their existing level of development and the potential advantage that the latter may have in any scheme of equalisation.

The question of regional disparities thus has to be discussed on two different planes. Within the state, the complaint is often voiced that Hyderabad does not bestow sufficient attention on the needs of the backward regions. As the Telengana agitation showed, this discontent sometimes manifests itself in political unrest. That the state planners have not been unresponsive to these demands is evident from (a) the formulation of perspective plans for the three different regions, covering a time-horizon of 15 years and (b) the formulation of the "six point formula" under which funds are allocated among the three regions, Telengana, Rayalaseema and Coastal Andhra, in the ratio of 5 : 3 : 2. As part of the formula, the Centre had allotted Rs. 90 crores for the development of the backward regions

CONTENTS

After 25 years, Regional Imbalances Persist — *The Editor* 13

Quarter Century's Economic Development of Andhra Pradesh — *Js. Narayan Rao* 15

Haphazard Industrial Growth in Andhra Pradesh: Need for Corrective Measures — *P. Subba Rao and M. Gangadhara Rao* 18

Economic Development of Andhra Pradesh : A Quick Survey —*G. V. S. A. Prasad* 21

APSFC's Role in Promoting Healthy Development of New Industrial Units —*K. Chengaiah Chetty and C. M. Muniramappa* 23

Rural Electrification in Andhra Pradesh — *M. S. Baig* 26

Transfer of Know-how in Cattle Breeding in Andhra Pradesh—A Case Study — *D. K. Murthy* 28

Dairy Development in Andhra Pradesh — *C. R. Reddy* 29

Hyderabad — City with Old World Charm — *(Contributed)* 31

during the Fifth Plan and the state government constituted regional devlopment committees to direct and monitor the working of the formula. Why these efforts have not made any serious dent in the problem of regional backwardness should form the subject of a serious study by economists specialising in the state's problems.

On another plane, the state planners have explained the retarded growth of Andhra Pradesh—at least in the field of industries — in terms of the poor central sector investment. It cannot be denied that the investment of only Rs. 390 crores by the Centre upto March 1977 is meagre as it represents only 3.5 per cent of the Centre's overall investment whereas the state accounts for 7.9 per cent of the country's population. That the state is backward, industrially, is evident from (a) the low *per capita* value-added in manufacturing industry (Rs. 78 against Rs. 120 for all-India) and (b) the low *per capita* electricity consumption, viz., 83 kwh in 1977-78 against 120 kwh for the whole country.

There is, admittedly, a certain skewness in the pattern of the Centre's investment in industries in the states but this is not the major retarding factor because even the states which have received the lion's share of the Centre's investment, like Bihar, remain very backward. The explanation for certain paradoxes like the poor *per capita* availability of foodgrains inspite of the state remaining the granary of the south and the meagre *per capita* consumption of electricity inspite of the state remaining surplus in power have to be found elsewhere. Again, no easy explanation is forthcoming as to why, even after a quarter century of planning, Andhra Pradesh has more illiterates than has any other southern state, why 20 out of every 100 children in the state do not attend a school and why Andhra has fewer hospital beds per lakh of population than in the other states in the south.

One will not get a clue to the riddle of under-development in Andhra Pradesh unless one makes a genuine effort at understanding the causes of these lags. To repeat the obvious, the causes cannot be traced either to the pressure of a large population (it is less dense in Andhra Pradesh than in the neighbouring states) or to the inadequacy of the infrastructure where one finds certain deficiencies. The accentuation of inequalities — regional differences as well as the disparities between the rich and the poor — in Andhra Pradesh may be traced, to a very large extent, to the feudal nature of the state administration and to the political orientation of the elite who hold the levers of power. Successive general elections have not made any difference to this elitist orientation because of the in-built limitations of the system.

Nevertheless, the temptation to paint the state's performance entirely in subdued tones needs to be resisted if only because Andhra Pradesh, like the neighbouring states of Maharashtra, Karnataka and Tamil Nadu, has taken great strides through successive five-year plans. For one thing, the tempo of development activity in the state has been maintained. From Rs. 97 crores in the First Plan (1951-52 to 1955-56) the plan expenditure went up to Rs. 189 crores in the Second Plan (1956-57 to 1960-61), to Rs. 352 crores in the Third Plan (1961-62 to 1965-66), to Rs. 449 crores in the Fourth Plan (1969-70 to 1973-74) — with the intervening three annual plans absorbing Rs. 234 crores — Rs. 1,004 crores in the Fifth Plan (1974-75 to 1977-78) and Rs. 437 crores in the annual plan of 1978-79. The Sixth Plan (1980-85) outlay is fixed at Rs. 3,100 crores of which the budgeted figures for 1980-81 and 1981-82 are Rs. 501 crores and Rs. 538 crores respectively.

So far, the five-year plans of Andhra Pradesh laid special emphasis on irrigation and power which claimed almost two-thirds of the plan investment. Though the state's resource-endowment justified this bias in favour of irrigation and power, the need to halt the deterioration in social services has become urgent. This is reflected in the increase in the allocation to social services in the Sixth Plan from about 12 per cent to 23 per cent. But, by and large, the state planners see advantage, even from the broad national angle, in continuing the agriculture-bias but in that case, they argue, the state should be compensated by a corresponding weightage being given to Andhra Pradesh in making the central sector's allocation to industry. The logic of the argument cannot be seriously questioned.

From the progress that Andhra Pradesh has been able to achieve in the seventies, one can hopefully say that it is poised for a major breakthrough in the eighties. There has been a near-doubling of the yields of major crops and foodgrains production has already crossed the 10-million mark. In the power sector, Andhra Pradesh has achieved a balance between hydel and thermal power. With more coal-based power stations coming up, a major hurdle in the way of the state's industrialisation will have been removed. In the industrial field, more industrial units are coming up, thanks to the catalytic role played by term-lending institutions, promotional agencies and commercial banks. With the setting up of the Visakhapatnam steel plant, a major lacuna in the heavy industry sector will have been filled.

Quarter Century's Economic Development of Andhra Pradesh

By DR. Js. NARAYAN RAO

ANDHRA PRADESH, formed in November 1956, following the linguistic reorganisation of the states of the Indian Union, is celebrating in this month the Silver Jubilee of its formation. The occasion, however, calls for taking a hard look at the economic performance of the state in the last 25 years.

The story of Andhra Pradesh is the familiar story of an under developed region with many opportunities and challenges of development. The State is a byword for agriculture in the country. Andhra Pradesh grows all important crops. Endowed with a good rainfall (900 m.ms per annum normally) extensive irrigation facilities being a river state 35 per cent (1977-78) of the total cultivated area of the state is irrigated, while the All-India percentage is 27 per cent (1976-77) the state has immense opportunities to scale higher peaks in agriculture. The state is a major producer of coal, sugar, cigarettes, drugs, vanaspathi, cement and paper, fertilizers, steel and watches are going to be added very soon to the list with the completion of Kakinada and Ramagundem fertilizer plants, Visakhapatnam steel plant and Allwyn watch factory. The state well on the way towards greater industrialisation.

The obstacles to economic development of the state should also be briefly noted. The population of the state, at about 5 crores in mid-1978, though increasing at less than (2.5 per cent per annum) the All-India growth rate, (1961-1971), is rising fast. Needless to say, the rapidly expanding population (at 2.1 per cent) requires higher and higher plan outlays to just maintain the existing standards of living. Taking account of the fact that the state is faced with uncertain natural conditions and a lot of barren land, the density of the population of the state (157 per sq. km) though less than the All-India figure of 167, should be considered quite burden some.

The state is faced with persistent drought conditions with drought prone areas covering nearly two-thirds, of the area and one-third of the population of the state. Nearly half of the 23 districts of the state are perennially drough-prone. Rayalaseema, consisting of 4 districts, is completely drought-afflicted. Its annual average rainfall of 670 m.ms is less than the minmum rainfall required for the conduct of normal agricultural operations. In the case of the rest of the state also, the annual variations from the normal rainfall are quite large. Of late, cyclones have become quite a regular feature in the Costal Andhra.

Nursed in a predominately agaricultural environment, the state's population lacked industrial entrepreneurship to undertake large industrial undertakings. Also, the differences in the levels of economic development of the three regions of the state, namely, Coastal Andhra, Rayalaseema and Telangana, with the latter two lagging behind the former, due to natural and historical reasons, call for more than the usual efforts of development. In addition, 17.1 per cent of the total population of the state consists of SCs (13.3 per cent) and STs (3.8 per cent) who are below the poverty line, requiring massive special efforts to lift them above. The problem of the development of the state has been accentuated too with no local self government in the state for the last 10 years and development efforts left entirely to the bureaucracy of the state. For, the bureaucracy, by and large, is unresponsive and unapproachable to the people, in addition to being, largely undemocratic, inept and corrupt. It is strange that the state which is the heralder of the panchayat raj institutions in the nation is without elections to those institutions for more than a decade.

Above all, the state with a *per capita* income lower than All-India average, tardy growth of its tax revenues, meagre commercial banks' advances, small institutional and market borrowings, recurring drought, floods, cyclones and political agitations is faced with serious financial constraints. It is facing a severe ecological problem too in the form of its dwindling forest areas and resources. The far reaching consequences of this deforestation can be imagined when it is known that the present drought of Rayalaseema has been acknowledged to be due to its declined forest wealth over the centuries. The lack of imagination on the part of the bureaucratic functionaries in this respect can be seen from ruthless felling of trees by the MCH.

Planned public investment is recognised as the greatest booster of the economy of the state, as it touches every segment of the state's economy. So far, the state has invested a sum of Rs. 2,253.95 crores, spread over the second, the third, the annual, the fourth and the fifth five years plans as inicated in Table 1. A sum of Rs. 2,030 crores is proposed to be invested in the Sixth Plan (1980-1985). During the first plan, the state was not yet formed, though the figures of investment for the scatteered territories were consolidated afterwards. However, as said earlier, the progress of the state, due to a number of reasons, upto the fourth plan was very slow. During the Fifth Plan, the plan size was more doubled over the Fourth Plan. The jump in investment in the Fifth Plan is the greatest jump in the plan investments of the state. The tempo, however, is not maintained during the Sixth Plan. The Sixth Plan investment is not even double of the Fifth Plan outlay. The Sixth Plan outlay should be increaaed by another

TABLE-1

PLAN OUTLAYS OF ANDHRA PRADESH

Plan	Outlay Rs. crores	Indax Numbers
II plan	188.60	100.00
III plan	352.42	186.86
Annual	234.06	124.10
IV plan	448.87	238.00
V plan	1030.00	546.12
VI plan	2030.00(p)	1076.35

* First Plan outlay was Rs. 96.78 crores. But, the second plan was the 'first' plan of the state.

Source : Ap year Book 1979.

Rs. 450 crores to be in tune with nearly 130 per cent rise in the outlay during the Fifth Plan. As against this, the Sixth Plan rise over the Fift Plan is only about 97 per cent.

On the whole, the plan outlays of the state have increased by some ten times between the second and the sixth plans. Taken alone, the growth is quite impressive. But, when compared with the growth of the central plan outlays, which grew by some 24 times between the second and the sixth plans, the increase is not so impressive. From the second plan onwards the prices have been rising uninterruptedly. Between the second and the sixth plans, prices have increased by about four times.

TABLE-2

INDICES OF DEVELOPMENT OF ANDHRA PRADESH

Base : 1955-56-100

Item	Index (1978-79)
State Income at 1960-61 prices	206.18
Per capita income at 1960-61 prices	134.23
Gross Irrigated Area	138.64
Agricultural production	180.00
Industrial production	423.40
Electricity generated	2531.61
PWD Roads	173.63
Primary School Enrolment	211.16
Govt. Hospital Beds	194,63
Motor Vehicles Reg.	944.00

Source : Hand Book of Statistics Andhra Pradesh 1978.79.

When deflated by the wholesale price index of 483.44, the Sixth Plan index comes to 222.64, indicating just a little more than doubling of the real investment between the second and the sixth plans. The results of the increases in planned investments have been an appreciable increases in all indicators of economic development of the state as shown in Table 2.

All the ten indicators of growth have shown an upward trend, though in varying degrees. The highest growth is experienced by electricity generation and the lowest by the *per capita* income. The meager growth of *per capita* income is to be explained in terms of nearly 50 per cent growth of the population and the tardy growth of the state income itself. The *per capita* income growth rate of 1.37 per cent per year is far less than the state population growth rate of 2.1 per cent. The effect of such a small increase in the *per capita* income will be to push more and more people below the poverty line.

Irrigation and power claimed about 2/3 share of the Andhra plans. The lion's attention can be justified on the ground that irrigation and power are the basis of agricultural and industrial development. But, while the power production increased by leaps and bounds; the rise in the gross area irrigated is a puny 38. 64 per cent. The returns on irrigation have not been commensurate with the investment in or priority accorded to it.

While both the agricultural and industrial production have substantially increased, the latter has increased by some four times more than the former. Unless the pace of agricultural production increase, it may act as a drag on the growth of industrial production. Already, the sugar factories in the state are facing increasing shortage of cane. Since the prospects of demand for agricultural commodities have brightened, with the opening of export for them and the NREP, the state can increase its agricultural output without any fear of slump.

Social services have received a back seat in the Andhra plans as is evident from the slow growth of primary school enrolment and the number of hospital beds. Universal compulsory primary education, a constitutional obligation, is yet to be achieved. As against the tardy growth of primary school enrolment, the college enrolment has increased by 300 per cent. Education accounts for 27 per cent of the state budget while the national average spent on the item is 24.5 per cent. Yet, with such a heavy expenditure, the primary school enrolment covers not even 50 per cent of the population below 14 years which was 143 lakhs in 1971. The state plannes should call a halt to the expansion of the college and university education in the state and allocate more funds to primary and vocational education.

The lesson to be learnt by the state from its experiencd of 25 years of economic development is that in the future it should have more purposeful, balanced and vigorous development. The aggregate indicators hide a number of pitfalls, some of which have been indicated in this note. The state plans should aim at a direct assault on poverty and this attack should start from the poorest of the poor consisting of SCs, STs and agricultural labourers. So far, the success of the state in this direction has been small. *The elitist orientation in education, housing, transport and medical aid should be changed towards the weaker sections.*

A comparison with All-India levels of development regarding *per capita* income, literacy etc., would throw a better light on the economic performance of the state in its silver jubilee year of existence. Table 3 brings out the levels of development of the state and All-India vis a-vis select indicators.

Out of the ten indicators, Andhra Pradesh is well placed vis-a-vis All-India regarding serial number of items 7 and 18 only. Yet, in spite of better fertilizer consumption per hectare and a larger percentage of the area irrigated, the state lays behind All-India regarding the average yield of rice;which is the most important crop of Andhra Pradesh. Nearly ¼ of the total cultivated area is devoted to this crop and the state has reputation as the rice bowl of India. The lower population growth of the state should have pushed the

TABLE-3

GROWTH INDICATORS FOR INDIA AND ANDHRA PRADESH : A SOCIO-ECONOMIC COMPARISON

Sl No.	Indicator	AP	All-India
(1)	(2)	(3)	(4)
1.	Per capita income	Rs. 1026 (1978-79)	Rs. 1048.60 (1976-77)
2.	Average yield of rice (1975-76) quintals per hectare	12.5	16.6
3.	Literacy (%)	24.57	29.45
4.	Industrial income (%)	11.0	18.0
5.	Per capita consumption of electricity (kwh)	77.44	119.38
6.	No of Hospital Beds per lakh people	73	79
7.	Fertilizer consumption (kg/hect)	30.3	20.1
8.	% of villages electrified	77.6	57·3
9.	Per capita bank deposits	Rs. 148	Rs. 252
10.	Per capiia bank Advances	Rs. 106	Rs. 194

Source : Statistical Abstract of India 1978; Statistical Abstract of Andhra Pradesh 1978.

state's *per capita* income above the all-India average.

Though the state surpasses India in the percentage of villages electrified (vide item 8) its *per capita* consumption of electricity is lower due to the lower industrial profile of the state. For, notwithstanding a percetible rise in the industrial production, the percentage of income generating in the industrial sector is only one per cent in Andhra Pradesh while it is 18 per cent in All-India. If the *per capita* bank advances are any indication of the enterprise of its people, the states figures are behind the All-India average by about 45 per cent. Of course, the state is behind All-India average in *per capita* bank deposit also. What is significant however is the gap between the state's *per capita* bank deposits and advances, which indicates the flow of commercial funds from the state to the other states.

The state falls behind the rest of the country in terms of the sociological indicators of literacy and medical facilities. The deteriorating standards of public health are well in evidence in Hyderabad. For, in the last ten years, the capital city has become a mosquito infested area with the Municipal Corporation of Hyderabad under the rule of special officers doing nothing to meet the menace. Family planning appears to be receiving better attention than general medicare in the state. This is once again a distortion of priorities.

However, the real test of the development of a state lies in the reduction of poverty, unemployment and economic inequalities. By this standard also, the state comes in a poor light. According to Table 4, Andhra Pradesh is the fourth most poverty-stricken state after Orissa, Pondicherry and Tamil Nadu in terms of the percentage of population below the poverty line.

TABLE-4

PERCENTAGE OF POOR TO TOTAL POPULATION (1974)

Sl. No.	State	% of Poor
(1)	(2)	(3)
1.	Andhra Pradesh	51.87
2.	Assam	37.77
3.	Bihar	38.82
4.	Gujarat	38.94
5.	Haryana	27.49
6.	Karnataka	48.25
7.	Madhya Pradesh	51.76
8.	Maharastra	42.96
9.	Orissa	61.53
10.	Pondicherry	56.17
11.	Punjab	19.70
12.	Rajasthan	32.48
13.	Tamil Nadu	54.83
14.	Uttar Pradesh	47.55
15.	West Bengal	50.11
	INDIA	45.51

Source ; *Southern Economist*, Vol. 17, No. 8, August, 1978, p. 37.

With nearly 25.5 millions out of its total population of 49 millions in 1978-79 below the poverty line, the state can not be said to have made any real progress in the last 25 years. It is not difficult to imagine that the widespread poverty is due to large scale unemployment and underemployment. The state is said to be one of the chronic unemployment afflicted in the country, with an unemployment rate of 12.01 per cent of the labour force as against 8.34 per cent unemployment rate for the country. An idea of glaring economic inequalities can be had from the large disparities in the ownership of agricultural land, urban properties, housing accomodation. household articles and daily consumption of different sections of people in the state. The experience of economic development of Andera Pradesh in its silver jubilee year, drives one to the inevitable conclusion that the state should aspire to attain the goal of universal education, employment, medical care and reduced inequalities of income at least before its Golden Jubilee year.

* * *

THERMAL STATION BASED ON MANUGURU COAL

A Thermal Power Station is proposed to be located at Manuguru village on the bank of river Godavari about 50 K.m. from Bhadrachalam. This location is considered to be an ideal one for the establishment of a Super Thermal Station as it is situated in the heart of a large coal belt. Two units of 210 M.W. capacity each are proposed to be installed in the Station initially with provision for extension upto five units.

Coal requirements of the Station will be met from the newly opened Manuguru Coal Mines. Coal will be transported to the Station from Manuguru Mines by belt conveyors. Water requirement of the Station will be met from the nearby Godavari river. A Project Report with an estimated cost of Rs. 189.90 crores was prepared and sent to Government of India in December, 1976 for necessary clearance. Any further delay in the clearance of the Project and starting of work will mean deterioration in power supply position towards the end of the plan 1980-85. The Station can be commissioned within 4 years after the Project sanction is received. A Provision of Rs. 151 crores is proposed in the five Year Plan, 1980-85, for this Project.

Haphazard Industrial Growth in Andhra Pradesh: Need for Corrective Measures

By P. SUBBA RAO * and M. GANGADHARA RAO **

AMONG agriculturally-predominant states, Andhra Pradesh, rightly called the 'rice bowl' of India, with its bounteous rivers, fertile fields and abundant rice and other cash crops, stands unique. Although the State is considered to be backward in industry, in recent times, it has made noteworthy effort to industrialise its regions on a significant scale, with a view to securing a faster rate of growth, creation of employment opportunities and to achieve maximum utilisation of natural and human resources in different parts of the State.

As a result, today, 262 large and medium scale industries, over 5,800 small scale industries and more than 25 public sector undertakings (with an investment of over Rs. 205 crores) are functioning in the State. By and large, the industrial outlook for the State remains bright. This is largely because of the fact that, there has been a spectacular improvement in power generation and within a short period of four years from 1973 to 1977, the installed capacity has increased from 3016 million K.W.H. to 4780 million K.W.H.

The industrial situation in Andhra Pradesh has been fairly encouraging. Firstly, a giant fertiliser factory with an investment of Rs. 232 crores is coming up at Kakinada. Secondly, the Centre is committed to the setting up of an integrated steel plant involving an investment of about Rs. 2,500 crores at Visakhapatnam, Thirdly, the public sector institutions like Andhra Pradesh Industrial Development Corporation (A.P.I.D.C.), Andhra Pradesh Industrial Infrastructure Corporation (A.P.I.I.C); Andhra Pradesh Industrial Technical Consultancy Organisation (APITCO) and Andhra Pradesh State Financial Corporation (APSFC) are acting as catalytic agents to help the setting up of new units. Eight more new industries with an investment of Rs. 546 crores are coming up as new projects in the State. In the matter of rural industrial projects, the State comes first in India. It has a large variety of handicrafts combining beauty and utility. The Government of Andhra Pradesh has accorded sanction for the establishment of 11 district industries centres to help small and tiny sector industries under a single roof.

Despite the rapid strides in industrialisation, the fact remains that the state ranked only eighth in the country in terms of its share of productive capital of organised industries, seventh in industrial output, sixth in industrial employment and fifth on the basis of the number of registered factories during 1976. Further, the state has not received a fair share of pubiic sector investment. At the end of March 1976, only 2.6 per cent of the total paid-up capital of Government companies in the country was invested in Andhra Pradesh while it was 7.6 per cent for Bihar, 7.1 per cent for West Bengal and 4.3 per cent for Tamil Nadu.

It may be appropriate to quote the weaknesses of industrial growth of Andhra Pradesh pointed out by Prof. J. Satyanarayana, Head of the Dept. of Commerce, Osmania University, Hyderabad, in a paper on Industrial Development of Andhra Pradesh at a seminar, which reveals the inadequate and haphzard growth of industries in Andhra Pradesh. Firstly, the share of industry and mining in the central plan outlays ranged from 18.4 per cent from the Second Plan period to the Fifth Plan period, whilst in the state, it ranged from 3 per cent to only 5.6 per cent. Hence though absolute growth of industries is possible. the relative share cannot be expected to increase. Secondly, according to the Annual Survey of Industries, 1976, the share of agro-based industries has declined in the total employment, productive capital and output though they continue to account for more than half the number of units, employment and output in large scale sector. Thirdly, in the case of joint venture units sponsored by the A. P. I. D. C, the co-promoters are established entrepreurs having other industrial ventures in similar or diverse lines of manufacture. This defeats the very spirit and purpose of the joint sector units.

A close study of the financing of small scale units by Andhra Pradesh State Financial Corporation reveals that 23 per cent of the units got sanctions above Rs.1 lakh accounting for 75 per cent of sanctioned amount during 1976-77 and 22.6 per cent of the units secured 74 per cent of the sanctioned amount during 1977-78.

Industrial Development in the state is afflicted by sickness, which of course is a national phenomenon. In a recent assessment, APIDC estimated that about 25 large and medium units mostly in engineering, chemical, food processing and consumer oriented industries are found to be sick. According to another statement by the Managing Director of A. P. S. F. C. by the end of 1977, 2,000 units have reported sick and State Bank of India repotted that it has to nurse 1,200 small sick units to normally.

A survey conducted by the Indian Institute of Economics reveals that, 873 of a total of 9,181 are dead units in the state between September, 1974 and March, 1975, and found that units born before 1965 reported less mortality. The report observes that, " if birth is induced by sudden promotional measures and possibly not followed up, consistently the units dies a natural death within two or three years ". The 1977-78 report of the A. P. S F. C. says that 272 out of 831 units under production are not working properly and the ability of 1,340 units financed by the Corporation has been affected by their debt obligations and overdues amounting to Rs. 476 lakhs.

---

* Lecturer, P.G. Department of Commerce, Sir C.R.R. College, Eluru. (A.P.)

** Professor and Head of the Department of Commerce and Management Studies, Andhra University, Waltair-530 003.

II

The state of Andra Pradesh is broadly divided into three administrative and economic regions: the fertile, densely populated coastal belt, the Rayalaseema area which has rich mineral deposits yet to be explored and the Telangana belt in the Deccan which is most backward although a number of industries are located there. Let us look at the distribution of industry among these regions in the State.

According to the 1975-76 annual survey of industries, the number of registered factories in Coastal Andhra was 3161 and the number of employed workers was 1.62 lakhs. The respective figures for Telangana were 1,794 and 97,369 for Rayalaseema were 1,011 and 23,668. During the same year, power consumption in Coastal Andhra was 1,294 million kwh against 1,072 million kwh in Telangana (largely because of industries in and around Hyderabad) and 427 million kwh in Rayalaseema.

A study of region/district-wise distribution of sanctions by A.P.S F.C. shows that the four Rayalaseema districts together secured Rs. 2 crores less than what Hyderabad city alone gained. Among the Coastal Andhra districts, the total sanctions has been Rs. 6.6 crores. More than half has been granted to three forward districts. Of the Telangana's apparently impressive share of Rs. 10 crore sanctions, nearly Rs. 8 crores were knocked away by Hyderabad and the neighbouring Medak district.

An incentive scheme was implemented by the State Government with a view to giving fillip to the pace of industrialisation in the State. During period of 1970 to 1975, Coastal Andhra secured the share of 28.60 per cent, Rayalaseema got only 8 92 per cent while Telangana benefited with the share of 62.48 per cent of the total sanctions.

The district-wise distribution of the total incentive amount suggests that only a few districts could claim higher share indicating the uneven spread of benefits and the schemes among the regions and districts. For instance, the aggregate share of first three districts viz., Hyderabad (38.4 per cent) Karimnagar (11.2 per cent) and Guntur (10 per cent) worked out to about 60 per cent of the total amount of incentive sanctioned during 1970 to 1975. Further, since the eligible amount of incentive was linked to the quantum of capital investment, a few large units took away the sanctioned funds. It can be added that the State incentive scheme only aggravated the imbalances.

Even though the removal of regional disparities has been one of the objectives of the Government, the process of the industrialisation and flow of its benefits in the State remained confined to a few centres or districts like the twin cities of Hyderabad and Secunderabad (including adjacent areas like Ramachandrapuram) and Visakhapatnam. Even the central Government which is expected to do something to help balanced development, has not done its job. All the central public undertakings in the State that are raising their assets at a much faster rate (31.17) were set up in and around the twin cities and Visakhapatnam. Even a single unit was not set up in Rayalaseema region.

There are only eight districts in Andhra Pradesh above the state level in industrial development on the basis of industrial output. They are Hyderabad, Guntur, Krishna, Nizamabad, East Godavari, Karimnagar and Warangal. Among them, four belong to Coastal Andhra and the remaining four belong to Telangana region. No district in Rayalaseema region is found to be industrially developed, though it is endowed with rich mineral resources.

There has been a criticism that only urban and semi-urban areas are benefitted by the rapid industrial growth in the state and country side is neglected. This is corroborated by the fact that the effluents of several industrial units have been causing water and air pollution not only in Hyderabad but also in towns like Visakhapatnam, Vijayawada, Rajahmundry, Kovvur, Kurnool, Guntur and other places. The A. P. Board for prevention and Control of water pollution, set up recently has decided to initiate prosecutions against industrial establishments causing water pollution, in public, private and cooperative sector industries. From these facts it can be concluded that there has been a haphazard growth of industrial units and/or industrial areas in Andhra Pradesh.

III

Unlike its neighbour state of Tamil Nadu (which is industrially developed), Andhra Pradesh is overwhelmingly endowed with rich mineral resources in its different regions, which make possible for the decentralisation of industrial activity. It is the only producer of coal in South; a sizeable producer of iron ore, manganese, lime stone, mica, etc. and account for 94 per cent of barytes of the country's production from its mines in Cuddapah, Kurnool, Anantapur, Prakasam, Nellore and Khammam districts. Production of quart and processed silica sand from Hyderabad, Medak and Mahaboobnagar districts serves the glass industry. There is copper near Kothagudem, in a tribal and backward area of Khammam district. The recent findings of extensive deposits of bauxite near Visakhapatnam will soon see the state emerge as a large producer of aluminium.

Andhra Pradesh is a predominantly agricultural State and offers a great scope for the development of agro-based industries. In Coastal Andhra, the availability of agricultural raw materials has helped the establishment of agro-processing units like rice mills, sugar factories, tobacco curing and Redrying plants, spinning mills, hand looms, weaving, chemicals, jute mills, cashew-processing units, paper mills, solvent extraction units etc. In Rayalseema region vegetable oil, spinning, textiles, sugar, handloom weaving and fruit preservation industries can be established to utilise locally available agricultural raw-meterials, whilst sugar, oil expellers, handloom weaving, textiles, paper, cigarette etc., are important agro-based industries that can be set up in the Telengana region.

Small scale, cottage and tiny sector industries can be promoted on a massive scale in the state to achieve balanced regional development, to secure maximum efficiency in utilisation locally available resources, to eradicate the problems of immigration, water and air pollution, to create employment opportunities on an equitable basis and to secure equal levels of income among the different regions.

In view of these circumstances, the main strategy to be adopted is to identify industries relevant to each area based on available mineral and material resources in different regions and promote such industries whether they be in public or joint or co-operative or private sector; and above all, steps should be taken to canalise entrepreneurial talent and direct investment into productive channels in order to secure planned and balanced industrial development in the state. The advantage of this approach is obvious.

Being a predominantly agricultural state, Andhra Pradesh should go for agro-based industries. This should be the central plank of the state's industrial policy. Mineral and forest resources should get the next priority in setting up of industries in the state. Andhra has the advantage of agriculture, Telangana has richer forest wealth and endowed with mineral resources and Rayalaseema rich in mineral resources. What is required is a deliberate policy to develop those regions basing on the particular advantage they enjoy and not the implementation of the same pattern of development in all the regions irrespective of their suitability to the local resource conditions. Therefore, it is on this tripod of agricultural, mineral, forest resources development that the State's industrial policy should stand.

APIDC's ROLE IN BALANCED INDUSTRIAL DEVELOPMENT

Andhra Pradesh Industrial Development Corporation has been playing an increasingly important role in the industrial development and balanced regional growth in Andhra Pradesh. The Corporation started with an authorised share capital of Rs. 25 crores and a paid-up capital of Rs. 23.05 crores. The Corporation has about 181 units under implementation and out of it, 102 have gone into production, accounting for a total investment of Rs. 714.82 crores providing employment to 1.65 lakh persons. The assistance of APIDC in these units is of the order of Rs. 52.33 crores. Out of this 40 per cent are in the backward areas accounting for Rs. 20.93 crores of APIDC's assistance. The largest (63) number of units are agro and forest based. This is followed by Engineering 30, Chemicals 38, Minerals and Metallurgical 28 and Electronics 18 units.

In terms of implementation, many of the important units in Andhra Pradesh have made significant progress, the most note-worthy being the Rs. 41 crore Sri Rayalaseema Paper Mills Limited. Other subsidiaries and joint ventures include Andhra Pradesh Carbides, Hyderabad Connectronics, Andhra Pradesh Rayons, Deccan Fibre Glass, Andhra Pradesh Lightings, Mango Processing Unit at Nuzvid, Krishna. Southern Transformers and Electricals Limited has signed a memorandum of understanding with NGEF, Bangalore for implementation a project in the joint sector.

SRI SAILAM PROJECT TO BE COMPLETED IN SIXTH PLAN

The Srisailam Hydro Electric Project is part of the integrated development of the water resource of Krishna River. The project is situated in a narrow gorge of the river Krishna, about half a mile down stream of the Pathalaganga bathing ghat near the holy shrine of Srisailam in Kurnool District. The work on the project was started in 1963. The original estimate for the project sanctioned in 1964 was for Rs. 38.47 crores. The present revised estimate is for Rs. 237.25 crores. The project envisages development of power at Srisailam with an ultimate installed capacity of 7 units of 110 m.W. each. In the first stage, 4 units of 110 m.W. each are to be installed and in addition, the civil works for all the power houses are to be completed. In the second stage, 3 units of 110 m.W. each are to be installed in the power house.

The expenditure incurred on the project from the inception to end of 1979-80 is Rs. 187.38 crores. During 1980-81 the expenditure incurred is Rs. 7.73 crores upto the end of September, 1980. The works connected with this project are at various stages of progress. It is now programmed to commission the first unit of the 110 m.W. capacity of the project by June, 1981. The other three units will be commissioned at intervals of 6 months. For the Sixth Plan period, the amount proposed for Stage I of the project is for Rs. 53.94 crores and for Stage II it is Rs. 39.38 crores. Thus the total amount proposed is Rs. 93.32 crores for the Sixth Plan period. The installed capacity to be generated will be 770 m.W. by the end of Sixth plan, i.e., 1980-85.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Economic Development of Andhra Pradesh: A Quick Survey

By G. V. S. A. PRASAD*

ANDHRA Pradesh is the fifth largest state in India, both in terms of population and in terms of area. The state has recently emerged as the 7th State in Industrial output in the country. Over the decade 1971-81, the population of the State increased by 22.76 per cent as against 24 75 per cent in all India. The density of population in 1981 was 194 persons per Sq. km. compared to 221 persons per Sq. km. in all-India. The literacy rate was 29.94 per cent in 1981 and is less than the all-India (36.17). Among the three regions, Coastal Andhra is the most density populated. The major portion of the state is covered by the red variety of soils. The state is also known as a "*River State*", since it has as many as 34 major and minor rivers. Of these, Godavari, Krishna, Pennar, Vamsadhara and Nagavali are the major rivers. The Government, through its plans, has successfully utilised the waters for irrigation by constructing important Dams, and Aycuts on the important rivers. The Nagarjunasagar project has emerged as the pride of the nation.

Though the State has to develop further to reach the level of developed regions of the country, it is not lacking in natural resources to achieve that goal. Andhra Pradesh is abundant in almost all the natural resources with the help of which it can reach the ideal of growth with justice. The following are some of the resources of the state.

Water : The state is endowed with abundaut water with a number of rivers and natural tanks. In addition to this, it has a long coast line of about 1,000 kms., the estuaries, lagoons and back-waters covering nearly 640 kms. In addition to this, it has tanks and ponds covering 10,000 hectares and reservoirs of 1.1 lakh hectraes. The Fisheries Development Corporation of the State is making use of these resources for development of and cultivation of fish.

Forests : Certain parts of the state are in eastern ghats and are covered by thick forests. Forests cover an area of 62.40 lakh hectares which works out to about 22.8 per cent of the geographical area of the state. The state is also famous for its scenic beauty and "*Araku Valley*" is one of the attractive tourist centres of the state. Forest income of the state has been constantly increasing over the years.

Minerals : The state has a veriety of soils which are rich in phosphoric contents. It is also endowed with minerals like asbestos, bayrites, coal, chromite, iron ore, manganese ore, mica, lime stone, graphite, quartz, gold and diamonds.

Rain Fall : The bulk of rainfall for the state comes from the South-West monsoon. The highest average rainfall in the state is about 100 to 125 cms. However, the Rayalaseema region is a zone of precarious rainfall.

So far, the state has implemented the four five year plans and three annual plans and is now in the sixth five year plan. During the last 25 years, the state has developed in many respects. The *per capita* income, at current prices, has increased from Rs. 158 in 1950-51 to Rs. 901 in 1976-77 and the *per capita* income in constant prices (1960-61 prices) was Rs. 237 in 1950-51 and it has increased to Rs. 305 in 1976-77. The contribution of the agricultural sector to the state domestic product (SDP) was 61 per cent in 1951 and it has declined to 45.08 per cent by 1976-77 leaving room for the industrial and tertiarly sector to cover the gap.

In other words, during the plan period, the state has progressed much in industrial sector. At the same time, the state has also shown progress in agricultural development. Since the launching of planned development in India, considerable emphasis was placed on modernising the farming system through a variety of programmes. In the earlier years, emphasis was mainly on prevention of famines and sustaining the levels of production through the use of modern inputs, better cultivational methods and extending the area under cultivation. But in recent years, the emphasis was on the introduction of HYV (high yielding variety) and extension of irrigation facilities through Nagarjunasagar project and assistance through the agencies like *SFDA* and *MFALDA* which have radically changed the entire appreach to agriculture. As a result, the productivity of rice increased from 1,142 kg per hectare in 1965-66 to 1,550 kg per hectare in 1978-79. Another notable feature is that paddy cultivation has become popular both in *rabi* and *kharif* season.

Andhra Pradesh is divided into three regions, namely Coastal Andhra, Rayalaseema and Telangana because of natural, historical and cultural factors. The three regions exhibit three different growth rates as far as the socio-econmic development is concerned. During 1955-56 to 1970-71, Telangana has achieved 9.43 per cent annual growth rate, where as Coastal Andhra has exhibited a growth of 3.25 per cent and Rayalaseema lagged behind with 2.62 per cent in agricultural development. Among the districts, Warangal has achieved the highest annual growth rate of 15.38 per cent. If we rank the districts according to the rate of growth during the period, all the first eight ranks go to Telangana. This is of course explained by

---

* Research Assistant, Department of Economics, Andhra University, Waltair. The author's thanks are due to Prof. S. Chandrasekhar, Head of the Department of Economics, Andhra University, Waltair, for his valuable suggestions.

SOME DEVELOPMENT INDICATORS OF ANDHRA PRADESH

Indicator	1950-51	1960-51	1970-71	1976-77
Coastal State income at 1960-61 price (Rs. in crores)	737.43	983.19	1328.14	1498.96
State income at current prices (Rs. crores)	492.68	983.19	2645.20	4434.08
Per capita income at current prices (Rs. crores)	158.00	275.00	602.00	901.00
Per capita income at constant 1960-61 prices (Rs. crores)	237.00	275.00	302.00	305.00
Net area shown (Lakh hectars)	98.19	107.84	112.69	106.01
Forest Area (Lack hectares)	47.48	58.47	62.40	63.81
Gross area irrigated (Lack hectares)	25.24	35.29	42.33	41.60
Primary agricultural credit societies (Nos.)	7856	13771	15104	14627
Road length (Nos.)	16431	19859	23294	27783
Towns and Villages Electrified (Nos.)	172	2647	9475	13694
Total Hospital beds (Nos.)	7693	19345	21678	23444
Enrolement primary schools. (Lakhs)	NA	28.17	30.98	32.35
No. of Colleges including Junior Colleges. (Nos.)	64	112	416	690

Source: Statistical abstract of Andhra Pradesh.

their initial low base and with the supply of water and introduction of HYV of crops. When we look at the factors responsible for the growth in productivity, these factors have emerged as the most important with varying degrees of importance at different stages. Rainfall and fertilizers have contributed to the growth in Cuddapah and Karimnagar districts. In Mahaboob Nagar, Warangal and Nalgonda districts fertillisers and irrigation and West Godavari district fertilizers alone have contributed significantly to growth in Agricultural productivity according to a research study.

However, Telangana and Rayalaseema have remained backward compared to Coastal Andhra in social development indicators like education, hospital, communication etc. As far as education is concerned, Telangana is placed in a better position compared to Rayalaseema because of Hyderabad and Warangal, where important educational institutions of the state are situated. The government has already recognised these disparities and have appointed regional development committees for the balanced development in the state.

Inspite all these small pitfalls here and there, Andhra pradesh has emerged as one of the important states in the country in terms of the economic development of the nation. The state is called the "granery of south India" and has produced 108. 00 lakh tonnes of food grains by 1977-78. The growth rate for the end of the plan was envisaged to be 12 per cent in the industrial sector.

APSFC's Aid Highest in 1979-80

THE gross financial assistance sanctioned and disbursed by the Andhra Pradesh State Financial Corporation during the year 1979-80 was the highest in any year since its inception. During the year, more emphasis was laid on introducing employment-oriented special schemes aiming at reducing regional imbalances and enconraging economically weaker sections of the Society. The gross financial assistance sanctioned by the Corporation, including bridge loans, during 1979-80 amounted to Rs. 3,949.46 lakhs, registering an increase of Rs. 911.58 lakhs, as compared to Rs. 3037.88 lakhs sanctioned during 1978-79. Similarly, disbursements made during 1979-80 has increased to Rs. 2,734.00 lakhs as compared to Rs.1,671.90 lakhs during 1978-79. The total amount of financial assistance outstanding has gone upto Rs. 7,475.39 lakhs as on March 31, 1980 as compared to Rs. 5,201.16 lakhs as on March 31, 1979, which meant an increase of 43.7 per cent. Assistance sanctioned to units located in backward areas during the year was Rs. 1.769.78 lakhs, showing an increase of 11.3 per cent over the previous year. Nearly 75 per cent of the total assistance sanctioned during 1979-80 was for projects in the small scale and tiny sectors as compared to 67 per cent in the previous year.

The Corporation during the year 1980-81 proposes to sanction Rs. 40 crores by way of loans to industrial units in the State. The Corporation also proposes to disburse an amount of Rs. 30 crores to the industrial units. During the year, the Corporation will place more emphasis in encouraging employment-oriented special schemes which aim at reducing regional imbalances and also encourage the schemes benefiting the economically weaker sections of the society in line with the Government's policy objectives. The Corporation also proposes to encourage more industries in the backward districts of the State. The existing schemes like the "Composite Loan Scheme" which aim at promoting village, Cottage and Small Scale Industries in tiny sector would be given more attention. During 1980-81, the Corporation proposes to sanction soft loans under the "Special Share Capital Assistance Scheme" for which an amount of Rs. 118.75 lakhs has been received from the State Government and IDBI.

APSFC's Role in Promoting Healthy Development of New Industrial Units

By K. CHENGAIAH CHETTY and C. M. MUNIRAMAPPA *

AN industrial entrepreneur in Andhra Pradesh is said to be fortunate to enjoy innumerable incentives to start an industry when compared to entrepreneurs of other states. The infrastructural and other facilities provided by the Andhra Pradesh Government and other agencies are attracting many persons even from outside the state. Among the institutional agencies rendering financial and non-financial assistance to entrepreneurs in Andhra Pradesh, the Andhra Pradesh State Financial Corporation (APSFC) occupies a place of primacy. In spite of the assistance extended by the Government of Andhra Pradesh and other financial institutions, the exent of industrialisation in the state does not seem to be satisfactory. An attempt is being made in this article to study the difficulties and hardships that the entrepreueurs are exposed to and to suggest some possible solutions.

Promoting an industrial concern is not a thing which can be executed with a stroke of the pen. It is a Herculian task. It is especially so, with unemployed educated who takes up the profession of entrepreneurship by compulsion attracted by the plethora of incentives given by the government and other institutions, forgetting for a moment that it is a challenging task. Who gives him the required training? How to acquire the business talents? Who teaches him the required patience? When can he be in touch with the technical skills? Just for obtaining certificates and licenses of registration etc., at various levels half of his patience would be exhausted.

The real problem that the entrepreneurs would be facing with APSFC in the initial stage of promotion is in getting (1) timely, (2) adequate and (3) purposeful finance. But the most important task here is how to coordinate these three essential requirements, viz., timely finance, adequate finance and purposeful finance. Regarding the timely finance, the new entrepreneur who generally would not be capable of turning out even the margin money expects the Corporation to sanction the entire amount of the term loan to meet his requirements for construction of factory buildings, purchase and errection of machinary etc., in the background of definite time schedules for the completion and commence production. Accordingly, he makes arrangements for the supply of building material and may enter into an agreement with the suppliers of machinery.

Due to the delays in sanction and disbursements of loan amounts (may be due to non-complience of required certificates and documents by the promoter/or due to the procedural delays of the Corporation), the 'escalation devil' plays a dominent role. The cost of building meterial goes up and the value of machinary and accesserics escalates. This results in insufficiency of sanctioned amounts. The devil neither allows the entrepreneur to go ahed with his plan of action nor will it allow closure of the budding unit. Where can he go for the balance of the amount needed as a result of an unprecedented increase in prices? The corporation on its part does not keep in mind the situation of rising prices and revise its estimates.

In addition, the time-lag involved in between the sanction and disbursement will also hinder the speedy coming up of an industrial project. Once again the entrepreneur has to undergo the same troubles of furnishing the certificates and documents for getting the disbursements. This two tier proceedure of certification becomes a test for his patience. This being a more time consuming process, the entrepreneur would not be in a position to meet his financial requirements within this time schedule.

Regarding the problem of adequacy of finance, the Corporation follows its own norms in fixing the volume of assistance, irrespective of the requirements of the entrepreneur. Being inexperienced, the new entrepreneurs usually underestimate their requirements. The Corporation, in its turn, brings down the estimate further and leaves a large gap between the amount sanctioned and amount required. This makes the entrepreneur shuttle between the devil and the deep sea.

The same tendency could be observed in the matter of disbursements. The instalments disbursed will have less/no relevence to the requirements of the project. With this progressive reduction in his requirements, it is a moot point whether he can complete his project. In the construction of factory buildings, the entrepreneur has no choice whatsoever, as far as the size, and has to adhere to the plans given by the Corporation. At times, the unit being small, may not need so much investment for the building as insisted by the Corporation. No doubt, the Corporation keeps in view the requirements of industrial safety and labour welfare, in insisting upon a particular plan for the factory building. This increases the burden of investment on the buildings.

Coming to the third question of the purpose for which finance is sanctioned, the Corporation once again follows a rigid pattern. The Corporation is keeping a list of industries or processes to be assisted and it never deviates from this. Depending upon the place and time, an entrepreneur may like certain fields in which he can prosper, which may not stand a place in the list of products of the Corporation. This is a blow on

---

* Mr. Chengaiah Chetty is Teacher-fellow, and Dr. Muniramappa is Reader in Commerce, Manasagangotri, Mysore-6.

the interests of the entrepreneur and he is compelled to deviate and choose a product in which he has no practical interest to produce.

Moreover, the Corporation's hesitancy to lend against the second-hand machinary, sometimes stands in the way of entrepreneurs. Assessing the rate of return on investment, and the nature of the market, he may find it profitable to set up his venture with second-hand machinary. He is denied the right of securing a loan on this account whereas he can do so in the case of a new machinery. This policy also needs reorientation.

Looking into the long-term requirements of an industrial project, the question is whether achieving the sanction of term loan from the Corporation by itself can act as a panacea to cure all the ills of a new project? Not at all. Perhaps the assistance of term finance by the Corporation solves 50% of the problems of the entrepreneur. What about the rest? Under Indian conditions, it is an accepted fact that the establishment of an industry is nothing but noruishing a new-born baby. Taking 50 persent care of the new unsts with only the term loan assistance makes the unit sick and results in the ultimate death of the unit, in the hands of a immature entrepreneur.

How far APSFC is successful in extending assistance other than the term loan? The answer is: it is almost negligible. What are the practical problems that ore coming in the way of the APSFC in deviating from the sole function of term loan assistance and stepping vigorously into developmental activities. For a development corporation, the primary objective must be developmental activity and lending function is only secondary.

Development banks, in general, must participate vigorousely in developmental activities. it is because most of the new units that are coming up in the small scale sector face a lot of teething troubles and become sick even before starting their production. Now-a-days, sick units have become a burning problem and are becoming direct burden on the economy. A thoroughly reoriented approach in lending and developmental activities of APSFC is therefore necessary. First of all, there should be a clear understanding as to what a sick unit is. A sick unit is the personification of lack of forethought, experience, patience, effeciency and sound financial background of the entrepreneurs. The new entrepreneurs who are lured by the package schemes and cent per cent financial aid, step in to the profession without any basic knowledge, experience and financial background. With their inefficiency, they are landing the unit into trouble, thus creating anxiety to the lending institutions.

Knowing fully well the limitations of an entrepreneur, it is futile to blame his inefficiency. It is rather better to rectify the conditions that force him to commit mistakes. The solution lies in a

Tel : 78484
78275-78

Tgm : "REFORGE"
Tlx : 0155-479

FORGING AHEAD FOR THE NATION'S PROGRESS

Republic Forge Company Ltd.,

Moula Ali, Hyderabad-500 040.

(A Govt. of Andhra Pradesh Undertaking)

The only Commercial Forging
Plant in the Public Sector
under "Modernisation and Expansion"
of production facilities to meet
ever-increasing needs of industries for Forgings-
be they Ferrous or Non-Ferrous,
Open or Die forged.

Quality Forgers to leading
engineering industries like
Automobile, Locomotive, Two
Wheeler, Earth Moving Equipment,
Diesel and Marine Engines, Sugar Mills,
Petro-chemical and Cement Plants,
Industrial Valves, Railways, Defence,
Space Science Centre, Mines etc.

" YOU NAME IT, WE FORGE IT"

coordinated approach. Even now the government, commercial banks and financial agencies in A.P, are extending all-out assistance starting from the infrastructural facilities upto the working capital needs including raw material and markets, which account for the hundred per cent assistance required for a new unit in small sector. Instead, the promotion, nursing and developing work can be taken up solely by APSFC which is a specialist institution for developmental activity.

The unit that is thus brought out by APSFC can be handed over to the 'qualified' entrepreneur. The qualified entrepreneur in turn is a person who is equipped with the full knowledge about the principles of promotion, management, technical background and sufficient in-plant training. Here once again the APSFC is the suitable institution which can undertake the burden of imparting sufficient industrial background to a raw candidate having inclination in industrial profession, and mould him into a 'qualified entrepreneur'. Thus the qualified entrepreneur can ultimately be asked to manage the concern promoted by APSFC. APSFC, which has already achieved its goal of attaining the Number One position among the SFCs in India now can straightaway jump into the developmental activity. The series of functions that has to be undertaken in this 'reoriented programme' are as follows :

1. Conversion of rew candidates into qualified entrepreneurs.
2. Project identification and preparation of preliminary feasibility reports.
3. Preperation of individual project reports.
4. Actual promotion of an industrial unit.
5. Handing over the unit to the qualified entrepreneur.
6. Constant follow up work.

Under the first function, i. e., conversion of raw candidate into a qualified entrepreneur, the Corporation, in collaboration with the Government, can open industrial training centres either in reputed industrial estates or in towns wherein more number of industrial units are in operation, and insist on the units there to take up and impart in-plant training in selected specialised fields. The Government can subsidise the expenditure concerned, and the candidate may be given some stipend during the course of his training. After the completion of a specific period of training through specific standards, he can be examined whether he has attained that standard or not. The eligible candidates can be graded as a 'qualified entrepreneur' who can straight away be asked to manage the unit which has already by been prmoted the Corporation. During the course of training, in addition to the inplant training, he must be tought the branches of knowledge like managerial science, promotional techniques, accounting priinciples, labour laws etc.

Regarding the second aspect, i.e., project identification and preparation of preliminary feasibility reports, the Corporation can take up the task of conducting field surveys to study the different places and their locational advantages, possibilites of promoting industrial units with the materials available locally, extent of developing marketing facilities, position of transport facilities, labour situation etc. The Corporation has to prepare separate survey reports for each area or zone or block. The reports will facilitate easy indentification of the industrial projects and gives a definite indea of the type of unit to be started, nature of production and its working feasibility.

The third step is the preparation of individual project reports. After identification of the project, the detailed estimates for promoting the individual project is to be prepared. These estimates include cost of acquisition of land, cost for constructing factory building, cost of plant and machinary, cost of erection, or sub cost of fixtures and fittings and so on. This report shows total cost involved in the establishment of proposed project. The fourth task is the actual promotion of an industrial unit. This involves the acquisition of land, construction of factory building, erection of machinery and set all the factors of production ready for action except the entreperneurship. The fifth one is the important stage of picking up the qualified entrepreneur and associating the concern with him. This involves in addition to choosing of suitable entrepreneur, entering into agreements regarding the instalments of repayments, interest rates etc.

The final function is the constant follow-up work by the Corporation. The Corporation must itself keep in constant touch with the working of the concern conceived by it by making frequent inspections and thorough periodical checkings. It can directly involve in the decision making activity of the concern by appointing nominee directors, if need be. The auditors of the Corporation can take up the periodical auditing of accounts of the unit at nominal charges and submit reports regarding true financial position of the concern. This gives a correct scope for the Corporation to take remedial action if there are any symptoms of sickness.

Now as the unit is a fullfledged one in workable condition with a strong financial base, and entrepreneur is also a fully qualified one, the unit can run on smooth lines, without any problems. Under these conditions the chances of a unit becoming sick are very remote. The unit runs on healthy lines yielding expected profits. The Corporation can collect its dues fully without any default and thus avoid suit filing in courts against defaulters.

NEW LINKS IN IA's WINTER SCHEDULE

Indian Airlines offers 3,200 seats more per week providing additional capacity on high density trunk routes in its winter schedule which came into force from October 15. A new link is a Boeing 737 service between Bombay and Colombo non-stop twice a week on Tuesdays and Thursdays. Gwalior is linked with Delhi and Bhopal by Boeing 737 flights three days on Tuesdays, Thursdays and Saturdays in this new schedule. Indian Airlines also provides two Boeing 737 flights a week linking Delhi with Chandigarh and Srinagar on wednesdays and Fridays in addition to the regular non-stop Airbus flights between Delhi and Srinagar. Nagpur is being linked with Delhi and Hyderabad four days a week by Boeing 737 flights.

Rural Electrification in Andhra Pradesh

By M. S. BAIG *

RURAL electrification may be regarded as an instrument of growth and change in rural areas. As the majority of the population lives in villages, rural development is possible only by elevating their standard of living. Rural electrification is considered to be the real index of progress of the country and all steps taken to increase the tempo of rural electrification are steps towards the development of the rural economy as a whole.

The extension of electricity to country-side has multiple objectives. They are (i) promotion of overall development so as to mitigate the effects of socio-economic dualism between rural and urban areas (ii) accelerating agricultural development in terms of both increase in productivity and output and (iii) generation of employment and income for the benefit of the rural community.

Andhra Pradesh, the fifth largest state in India, covering an area of 2,76,754 sq. kms., has 27,221 villages and 224 towns with a population of nearly 6 crores of which 80 per cent represents rural population. Inspite of the fact that Andhra Pradesh is blessed with several major rivers like the Godavari, the Krishna, the Tungabhadra, and a large number of smaller rivers and rivulets, colleries and mica mines, our state is lagging behind inrespect of industrialization. Exploitation of ground water resources by energisation of pumpsets and provision of irrigation facilities fosters agricultural development and leads to the creation of potential for industrialization. As a critical input, electricity helps both in helping dispersed activities and the promotion of modern decentralized small industries which undertake processing of agricultural produce and production of goods and services like hullers, rice mills etc. which are required by the emerging rural economy.

The progress made in respect of rural electrification upto the beginning of the First Plan was not satisfactory. Out of 27,221 villages, only 197 villages were electrified. Regarding the pumpsets energisation, the position was the same. Only 620 pumpsets were energised at the beginning of the First Five Year Plan. Rural electrification programme gained momentum only during the plan holiday period. The progress made by Andhra Pradesh in village electrification and energisation of pumpsets can be seen from Table 1.

Keeping in tune with the State Government's emphasis on integrated rural development, A.P.S.E.B. launched a massive rural electrification programme. Provision of electricity was not confined only to street lighting. The emphasis was shifted to increase production of food grains through planned irrigation, exploitation of ground water and also promoting the growth of rural industries.

Andhra Pradesh made remarkable strides in rural development through rural electrification programme, throwing open new vistas of development for the rural masses. A notable features has been the rate of increase in electrified villages in the past 8 to 9 years. From a meagre of 197 villages electrified at the beginning of the First Plan, the total number of villages electrified as on December 12, 1980 were 17,014. The number of villages electrified per year also changed drastically due to the sincere efforts of the Electricity Board. From 28 to 30 villages electrified per year in 1960-61, villages electrified per year rose to 1,000 to 1,500. Of all the districts in the state, West Godavari, Krishna, Guntur, Mahaboobnagar and Warrangal have shown good progress in villages electrification whereas Srikakulam and Visakhapatnam are far behind in village electrification programme. In pumpsets energisation Andhra Pradesh ranks next to Tamil Nadu and Maharastra.

If we compare the all-India average of village electrification with that of Andhra Pradesh average of village electrification, the progress made by the latter looks satisfactory. As against all-India average of 44.5 per cent of village electrification, the percentage of village electrification in Andhra Pradesh is 62.5 per cent. No doubt Andhra Pradesh owes a lot to the State Electricity Board and the three electric co-operative societies for their spectacular progress in energisation of pumpsets, but if we look into the ground water potential in the state, the work that remains to be done is considered to be quite large.

As the Government of India established a separate corporation to finance the programme of rural electrification programme and energisation of pumpsets in the country based on the recommendations of the All India Rural Credit Review Committee, one may assess the role played by the Rural Electrification Corporation in

TABLE 1

PROGRESS OF VILLAGE ELECTRIFICATION AND ENERGISATION OF PUMPSETS IN ANDHRA PRADESH

		No. of villages electrified	No. of agricultural pumpsets energised
1.	Beginning of the First Five Year Plan	197	620
2.	End of the First Plan	630	NA
3.	End of Second Plan (31-3-1961)	2680	17968
4.	End of Third Plan (31-3-1966)	4353	57225
5.	End of Three Annual Plans (31-3-1969)	5788	123167
6.	End of Fourth Plan (31-3-1974)	10485	261989
7.	End of 31-8-1980	17014	399384

Source: Data Andhra Pradesh and A.P.S.E.B, Hyderabad.

---

* Mr. M. S. Baig is Lecturer in Commerce, P.G. Department, A.M.A.L. College, Anakapalle-531001.

financing and promoting rural electrification programme and energisation of pumpsets in the country and in Andhra Pradesh in particular.

Till November 1980, the Rural Electrification Corporation sanctioned 3,800 schemes to 21 states within a short period of 10 years involving an aggregate loan assistance of about Rs. 184 crores. These projects, on completion, envisage electrification of over 1.8 lakh villages, energisation of 14.5 lakh pumpsets besides 1.8 lakh small scale industries. The number of villages electrified and pumpsets energised with the aid of the Corporation's finance as on September 31, 1980, were 78,000 and 6,27,000 respectively. A noteworthy feature of last year's achivement by the Corporation was every day on an average 400 pumpsets were energised. As on March 31, 1980, the Rural Electrification Corporation sanctioned 310 schemes to Andhra Pradesh involving an aggregate loan assistance of Rs. 101.4 crores. REC schemes covered more than 3 crores of population in the State.

As it is envisaged by the State Electricity Board to electrify 2,000 villages per year and energise 50,000 pumpsets every year, it is necessary to estimate the cost for 100 per cent electrification so as to enable the State and the Central Government to make adequate provision in their plan outlay for rural electrification and energisation pumpsets in the state. It was estimated by experts that Rs. 80,000 is needed to electrify an ordinary village and Rs. 1,00,000 to electrify a village situated in a hilly area. The average expenditure for the installation of one pumpset is estimated to be Rs. 5,000. In addition to this, the government has to incur expenditure on maintenance and administration. The number of villages to be electrified as on August 31, 1980 was nearly 10,220. Considering the progress made by the State Electricity Board and the Electric Co-operative Societies at Siricilla, Anakapalle and Raychoty, within a period of five years Andhra Pradesh will have 100 per cent electrification. Total cost to achieve this target is shown in Table 2.

TABLE-2

Village/tribal area	cost per village/ tribal area (Rs. in lakhs)	Total cost (Rs. in lakhs)
Tribal areas and hilly areas to be electrified : 1000 (approximately)	1.0	1,000.0
Other ordinary villages : 9220	0.8	7,376.0
	Total	8,376.0
Pumpsets : 2,50,000 cost per pumpset Rs. 5,000		12,500.0
		20,876.0
Maintenance and administrative expenses calculated one per cent of total cost		209.0
Total estimated cost		210,85.0

According to the above calculation, the State Electricity Board and the Rural Electric Co-operative Socities have to be provided yearly Rs. 4,217 lakhs for the coming five-year period to achieve 100 per cent electrification and energisation gf 2,50,000 pumpsets. State and Central Government must make due provision in their plan outlay to carry on this task without any hindarrances.

In conclusion, it may be said that the main reason for the slow progress in rural electrification in some districts of Andhra Pradesh is mainly attributable to the lack of adequate co-operation from the agencies involved in the programme of Integrated Rural Development Programme, financial institutions and rural poverty. As rural electrification programme is not remunerative, the Electricity Board is also indirectly dragging its feet on rural electrification.

To encourage and motivate State Electricity Board and the Electric Co-operative societies and to take corrective action by them to boost the programme of rural electrification, it is advisable to subsidise fully the loss incurred by the Board and the electric societies as was done in other countries like Belgium, France, Italy, Switzerland, Canada and U.S.A. To encourage poor and marginal farmers to buy and use pumpsets, subsidy for purchasing the pumprets to a maximum extent should be given and in the initial years, power has to be supplied at a very nominal or at zero charge.

Golconda Paints Private Limited

Manufacturers of:

SPECIFICATION PAINTS

Regd. Office & Factory:
B-13, Co-op. industrial Estate,
Balanagar,
HYDERABAD - 500 037

Cable : GLOPAINT
Phone: 262410

Transfer of Know-how in Cattle Breeding in Andhra Pradesh — A Case Study

By D. K. MURTHY *

ANDHRA PRADESH consisting of 2.77 lakh sq. km. area with a population of over 435 lakhs could be boardly divided into three geo-climatic regions of (1) eight districts of Coastal Andhra, (2) four districts of Rayalaseema and (3) nine districts of Telangana. While Coastal Andhra is the best developed area of the State in agriculture production, forming the "rice bowl" of the State. Telangana area is the most backword region of the State with limited water resources and a poor rocky soil. The agricultural operations in this area are rainfed and depend on the slender monsoon. As such, the agricultural production in this area is very low and the average rural family is very poor. Organisation of development programmes for enhancing the income and employment potential of the rural families in this area is essential to alleviate these poor and exploited rural families from poverty.

In order to provide additional income and employment resources to these poor families, the Dairy and Agriculture Division of IDL Chemicals Ltd, in collaboration with the APDDC, IDC. Animal Husbandry and Integrated Rural Development Departments of the State Government started a rural development programme in the three districts of Medak, Ranga Reddy and Karimnagar, with Dairy Production as the base. The APDDC has launched a programme for the establishment of new milk collection and artificial insemination (A I.) Centres in these three districts under Operation Flood II programme of the National Dairy Development Board. Each Centre would ultimately develop into a Primary Milk Co-operatives of the Dairy Federation on the Anand pattern.

It was decided in July, 1980, to select one rural unemployed educated youth belonging to the poor underprivileged rural families, who has some animals, who is already in milk trade as Milk Collection Agent and give him intensive training in cattle and buffalo breeding, Frozen Semen and A.I. Technology, feeding, fodder production and management, animal health care and milk marketing and formation of Milk Co-operatives.

Since the breeding season of the cattle and buffaloes commences from November, it was decided to to give a short term intensive training for these people and start the new Centres before the season. Two milk routes from Medak and Ranga Reddy districts and 10 Centres in Karimnagar District have been selected under this programme and so far 100 participants in 5 batches have been trained.

Immediately after training, each participant is provided with a Liquid Nitrogen flask of 10 litres capacity containing Frozen Semen. Since most of the milk collected by the A.P.D.D.C. in this area, is of buffalo origin, it was decided that the Frozen Semen supplied to these Centres should contain Murrah buffalo semen. Since most of the nondescript animals of the surrounding areas are small with remnant characters of Sindhi/Sahiwal breed, the farmers in this area prefer the Jersey semen for cross breeding. As such for cross breeding of cows, both Jersey and Holsesin-Friesian semen have been provided.

Each participants is provided, besides the Frozen Semen, with a complete set of A. I. equipment, veterinary first-aid kit and a fodder production kit. A cattle crush has been fixed in front of each Milk Collection Centre and sufficient funds are provided at each Centre for routine expenditure. Each participant is provided with a file with individual cattle and buffalo cards. Immediately after his return to the Centre, he has to meet all the farmers at the Centre individually and obtain information of all the breedable milch cattle and buffaloes at each Centre, which may be a village or a cluster of villages. After this information is collected, a mobile spearhead team with two Veterinarians will visit each Centre and inspect these animals and serially number them, to facilitate their breeding, milk production and feeding and management programme. Since each card provides details of calving, the Field Worker will every day see the register and inform the a day earlier, when their animals come to heat and request them to tie these animals in front of the Centre.

When the animal comes to heat, the field worker will inseminate the animal at the right time of heat with the Frozen Semen available with him. After keeping the animal with him, after insemination for about two hours, he will apply neem oil to the external genitalia so that no other stray bull will cross the animal. Any cow/buffalo which does not conceive after two inseminations is shown to the mobile Veterinary Team for examination and treatment. The Social Agent will get an incentive pay of Rs. 5/- for each conception to encourage him to produce maximum conceptions at his Centre. The mobile Veterinary team visits Centre once in every ten days to replenish the Liquid Nitrogen and to inspect the progress of work. Under this programme so far, 5 batches of 20 trainees have trained and each participant given a Certificate at the end of the training.

Ultimately, it is expected that these trained personnel will act as social change agents at each Centre, establish a Primary Milk Co-operative and bring about socio-economic development of the rural poor families of these three districts involving over 6,0000 rural families.

---

* Dr. Murthy is Acting Vice Chancellor C.S.A. Universty of Agriculture and Technology, Kanpur. He is also Adviser, Dairy Development, IDL Chemicals Limited, Hyderabad.

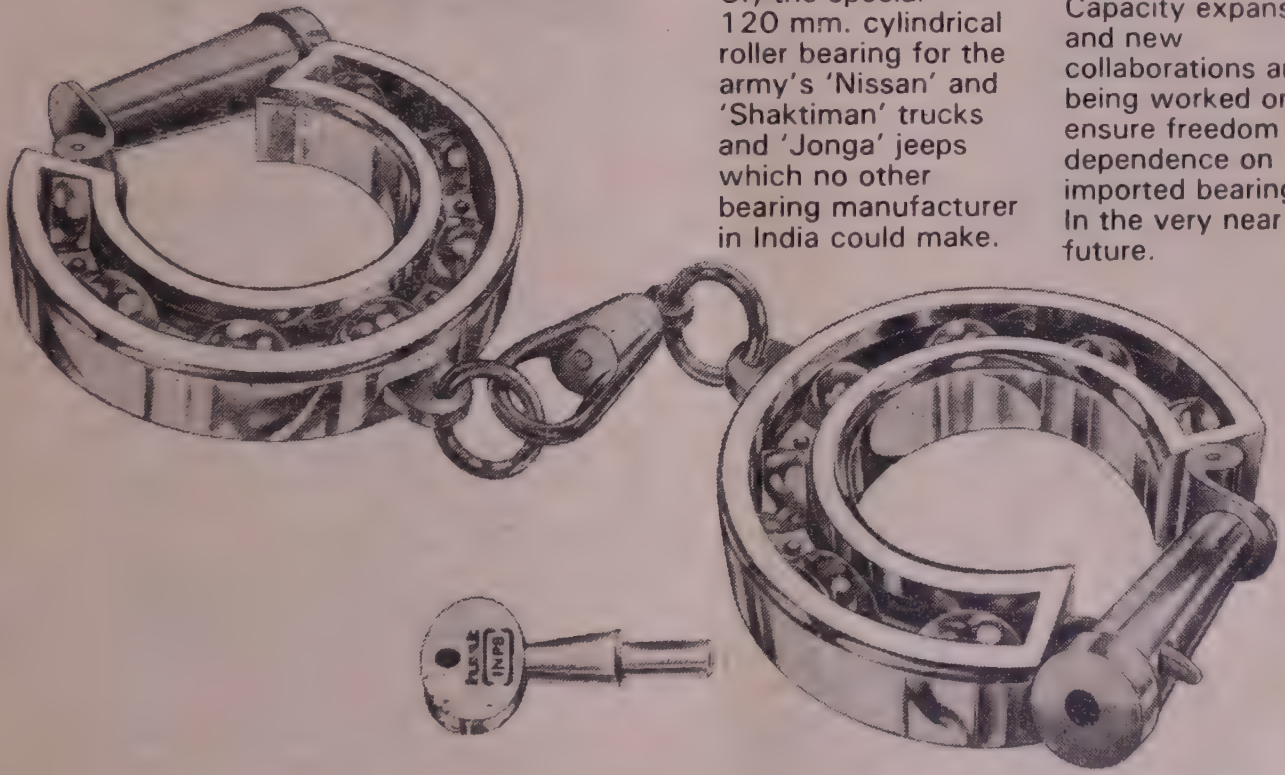
Independence in the near future

Freedom from dependence on imported bearings is the goal INPB has set for itself.
The combined strengths and skills of INPB and HMT have already set significant milestones on this road to freedom.
For instance, development of an exclusive cylindrical roller bearing for Bajaj Matador vans which Bajaj Tempo was importing as no bearing manufacturer in India could make it.

Or, the special 120 mm. cylindrical roller bearing for the army's 'Nissan' and 'Shaktiman' trucks and 'Jonga' jeeps which no other bearing manufacturer in India could make. And which the army had to import.

Or, the special bearings for aircraft and satellites that INPB is currently working on.
All examples that the time when HMT and INPB can match major international bearing manufacturers in both their ability to innovate and standards of quality, is very near.

Delivery, distribution and service are also being geared to face future needs.
Capacity expansion and new collaborations are being worked on to ensure freedom from dependence on imported bearings.
In the very near future.



The future in bearings is with us.

hmt

INPB

Indo-Nippon Precision Bearings Ltd.
(A subsidiary of HMT Ltd.)

Rediffusion/IN/1464 a

TOBACCO BOARD INDIA

There is a booming market for Indian tobacco today...

...with Tobacco Board working behind the scene!

The Tobacco Board has taken upon itself the whole task of regulating the marketing of Virginia Tobacco grown in the country. Developing new markets and improving existing markets outside India, for tobacco and tobacco products. Promoting the grading of tobacco. Introducing the "Tobacco Leaf Purchase Voucher" scheme to free the farmer from exploitation. Tobacco Board has gone a long way to improve the lot of the farmer and the economy of the tobacco industry today.

Committed to the cause of Indian Tobacco.

TOBACCO BOARD INDIA

TOBACCO BOARD
Guntur-522 007
Andhra Pradesh

ASP/T/793

Dairy Development in Andhra Pradesh

By C. R. REDDY *

DAIRYING fits well in diversified programmes of farmings. It generates income besides creating employment opportunities which reduce enormous rural unemployment. Cattle manure increases fertility of the land and help farm production while the by-products of farm available with farmer can economically be used as fodder to livestock, benefiting the farmer's economy. Cattle are also a major source of draught-power. Dairying, therefore, has crucial importance in the subsistence-oriented agricultural economy. In other words it is a 'tool' for wealth building by farmers. Moreover dairying meets the dual demand of food and rural-urban industry.

Andhra Pradesh has entered in 25th year on November 1, 1980 after its formation as a full fledged State. Over 70 per cent of working-force is eking out their means of livelihood from agricultural sector and most of them are having below two hectares of land. The State is rich in its livestock and accounts for one-tenth of India's cattle population. Ongole, deoni, tharparkar, and non-discript breeds of cows, murrahs, and exotic breeds of jersey, gurensy etc., constitute the major dairy stock in the State.

The initiative to start the dairy industry has become necessary due to rise in the price of milk and rapid urbanisation. The programme of dairy industry was then, initially mooted with the commendable help of United Nations International Children's Emergency Fund, Food and Agriculture Organisation and Freedom from Hunger Compaign Organisation of United Kingdom. Besides, they assisted a lot for the establishment of dairy units at Hyderabad and Vijayawada in 1967 and 1969 respectively which led to a 'pioneer move' in dairy development in Andhra Pradesh. Later, a set of cooling and drilling centres have been set up to feed these two gigantic units by collecting milk from the producers in countryside.

The milk producers have been faced with a host of problems in the process of production and marketing of milk say, transport facility, poor technology, absence of organised system of processing and marketing, unremunerative price particularly during the flush period etc. It was at this context the Government of Andhra Pradesh has viewed to constitute a dairy development corporation to safe guard the interest of producers and ensuring adequate supply of fresh milk at a reasonable price to the urban consumers. As an outcome the present Andhra Pradesh Dairy Development Corporation (APDDC) came into existence on April 2, 1974.

APDDC aims at 'improving' the socio-economic living of the rural people to bring parity between the haves and havenots. It provides employment to nearly 15000 employees and organises as many as 87 dairy units including 7 milk product factories, 13 district dairies, 22 chilling centres, 24 mini-chilling centres, 18 cooling centres and 15 mini-cooling centres. In addition to that, the private units have been contributing their little mite in the development of dairy industry. M/s. Hindustan Milk Foods who have started a malted milk products factory at Rajahmundry is doing notable work in its sphere. Further, to enhance working efficiency and to increase turnover the Government has constituted an autonomous Dairy Development Corporation on the recommednations of the Indian Dairy Corporation. As result of these measures, the dairy industry is moving towards massive milk production and milk collection.

To bring about the white revolution which is an 'integrated' element for rural development, APDDC has concentrated on modern technical inputs say, quality of cross breed cattle with superior germ plasm, better quality of feed, health cover etc. Two bull breeding farms were established at Banavasi and Visakhapatnam for production of high pedigree or progeny bulls for supply of sperm to cross breeding programme. Two freezing semen laboratories were opened with foreign collaboration at Visakhapatnam and Nandayl. The artificial breeding and artificial insemination not only reduce the inter-calving period but also increase the lactation period. So far, 1.25 lakhs cross breeds and 5.12 lakhs buffalo calves have been produced. APDDC has been supplying the quality of cattle feed of 125 tons every day from its six cattle feed mixing plants organised at Gadwal, Bhongir, Karimnagar, Budhavaram, Gudlavalleru and Amudalavalasa. One more plant of 100 tons per day is being installed in Krishna district. Home grown high quality of fodder and cultivated fodder can bring down the cost of milk production. As such, APDDC took fodder seed production programme and distributed 1400 fodder mini-kits to milk producers at free of cost for raising fodder crops on their farms. With regard to health cover, 14 districts are provided mobile dispensary to the isolated pockets. This covers 18 million sick cases in addition to the preventative vaccination to 52 million animals.

APDDC plays a key role in opening 11 mini-cooling centres of 1,000 litres capacity each in tribal areas. This will go a long way in improving supplemental income to them Further, a lucrative market for all the milk at the door steps of the milk producers in rural villages at fair rate based on the two-axis policy (quality of milk) could be handled with the net work of chilling and cooling centres.

At present more then 3.50 lakhs milk producers could get Rs. 20 crores per annum for supplying milk of which 69 per cent of total beneficiaries belongs to small and

---

* Dr. C. R. Reddy is Lecturer in Commerce, S. K. University, Anantapur-515 003.

mrginal farmers, agricultural labourers and other worker sections of the rural community. Every day 8.2 lakh litres of milk is collected while it was only 4.2 lakhs litres in 1976-77. Today every tenth litre of milk produced in the country comes from Andhra Pradesh. Arresting the oscillations in milk price as well as supply of 'toned milk' for every need are accelerating the programme of dairy development to a peak point. The turnover of milk has increased by fifty per cent in 1980-81 compared to that of 1976-77. Resultantly, the per capita availabilty of milk was as low as 68 gms in 1976-77 which went up and is today coming closer to the national averge of 120 gms. Besides, milk is freely distributed to 16500 children of weaker section group and expectant mothers everyday in Vijayawada and Hyderabad.

To meet the future demand and to reconcile the flush and lean variations in milk production, the milk product factories were instituted in the State for the manufacture of milk products viz., milk powder, infant foods, butter, ghee, cheese candy etc. Production of 291 tons of milk powder, 890 tons of butter, 4850 tons of ghee, 4704 tons of infant foods, 25 tons of cheese has been achieved. The fifteenth Dairy Industry Conference held by the Indian Dairy Accociation at Hyderabad in 1980 says that APDDC achieved a tremendous progress for its credit in dairy industry.

The State is further poised for a real take off in dairying. To envisage production the State Government is planning to develop the dairy industry by further investment of Rs. 40 crores in 17 districts. In order to meet the demand of consumers, APDDC has targeted to raise production of milk by thirty per cent compared to the present achievement. Processing and balancing facilities are to be stepped-up to twenty five lakhs and nine lakhs litres per day respectively.

Post Office Savings Banks: Dimensions of their Service

By **V. S. Arunachalam**
(Member, P&T Board)

PEOPLE know Post Office Savings Bank, but not the Government Savings Bank, the thing that it really is both by statute and by heritage. The Government Savings Bank passed to the Post Office on April 1, 1882. Before that, there were Presidency banks dating from 1833 and District Savings banks instituted in 1870, both of which continued to exist for a few years alongside the Post Office Savings Bank. What brought the bank to the Post Office was the realisation that "the Post Office affords an admirable instrument for the execution of any scheme which involved a wide-spread agency throughout the country". The achievement that followed amply fulfilled the expectation. Where there were only 180 banks before, the number rose to 4,238 by the end of the first year, with 39,000 depositors and deposits of Rs. 28 lakhs.

If the immediate impact of the Post Office agency was impressive, its continual progress in the last one hundred years has indeed been spectacular. As on March 31, 1970 there were 86,007 Post Office Savings Banks, 197.2 lakh accounts and deposits of Rs. 890 crores. This went up to 1,36,000 banks, 450 lakh accounts and deposits for Rs. 6,826 crores by 1980. Today, the aggregate deposits in Post Office Savings Bank account for 23 per cent of the total deposits in the whole Government sector of banking, which is very close to the share of the Japanese Postal Bank, the world's largest single holder of private savings.

The factors that have enabled the Post Office Savings Bank to secure this lead are the incomparably vast spread of post office savings banks which compared to all commercial banks together are over four-fold, and their nearness to the people both by distance and by their simpleness, the factors that have taken the Postal Bank anywhere in the world on the path of success. Compared to advanced countries like the U. K. and Japan, they are markedly more relevant in India.

Britain, which spread the idea of the Post Office Bank, was influenced by one dominant idea: that it would provide a ready means to the common people, even to those in relatively remote areas, to invest their money. That the money so invested would be of use to the nation also was a swaying consideration. India has more than proved the worth of these two ideas. There are 450 lakh depositors, an amazing figure considering that people of ordinary means form the bulk of the clientele. That the average savings bank deposit is Rs. 655 would prove this point. The Five-Year Plans have throughout been funded to the extent of about 5 per cent from the deposits in Post Office Savings Bank. The Government places reliance on POSB on both these counts.

The Post Office Savings Bank runs as many as four schemes within the framework of the Goverument Savings Bank Act, 1873: Ordinary Savings Bank with unrestricted facility of withdrawal; Ten-Year Cumulative Time Deposits and Five-Year Recurring Deposits which are long–term investments of a fixed amount every month, repaid in lump at the end of the term; Time Deposits which are long-term investments paying interest annually and repaying the deposits at the end of the term. Of the different POSB schemes at the end of 1980-81, Time Deposits topped the list with deposits of Rs. 3,582 crores, followed by Savings Bank with Rs.1,997 crores. In the Year 1980-81, deposits in the Post Office Savings Bank rose by 14.5 per cent and the growth over the year before was 18.9 per cent. In the current year, it is estimated that the growth will be 18 per cent.

Hyderabad — City with Old World Charm

(Contributed)

HYDERABAD is a picturesque, sprawling city. Situated where northern India blends into southern India, it, together with its twin Secunderabad, comprises India's fifth largest city. It is the State capital of Andhra Predesh, a centre of growing commercial and industrial importance. Yet the city's pace of life remains serene and leisurely still. The ways of its people are gracious and old-worldly.

If cities had a gender, Hyderabad's would definitely be feminine, a feudal courtesan hiding the vicissitudes of time with the skillful make-up of commerce and industry and keeping at bay the brash young rivals springing up all around. The quaint little bazaars around Charminar echo to the calls of bangle sellers and the jingling of rickshaw bells. Near the Mecca Masjid one hears the gentle, rhythmic beat of the wooden mallets used to make edible silver and gold foil which is used for decorating the desserts. Colourfully dressed 'Banjara' gypsies rub shoulders with women in mysterious black veils. The fragrance of Jasmine and hotspiced kebabs mingle in the heavy air; one can hear the lilt of a hundred conversations in Telugu and in Urdu.

Hyderabad was founded in the late 16th centuary by the Qutub Shahi dynasty — a line of kings known apparently for their beautiful "monuments, mosques and mistresses".

Situated as it was, the city soon acquired considerable military importance. Its fabulous diamond markets too were well-known. In 1687 Emperor Aurangazeb swooped down from Delhi and captured the city. When, after his death in 1707, the Mughal empire crumbled, his viceroy in Hyderabad, the young Asaf Jah, declared himself independent. Calling himself Nizam-ul-Mulk or Regulator of the Land, he founded his own dynasty. One that would, for seven generations, rule a kingdom larger than France, a dynasty whose scions would be included among "the richest men in the world". They, the Nizams, held sway over Hyderabad until 1948, when the state was merged with the Indian union.

The Charminar is Hyderabad's best-known landmark. It stands amid bustling bazaars, its wide and lofty minarets — proud and somehow remote. It was built in 1591 by Sultan Mohammed Quli Qutub Shah as a form of talisman, they say, to drive away a dreaded epidemic that was ravaging the newly-founded city. Others believe it was made as a place for making important announcements from.

From height of the Charminar's minarets and can see the entire city spread out below. It is a view one is privileged to see today, for during the last Nizam's time, it was forbidden. Quite typically, the Charminar area continues the traditions of the Oriental bazaar. To the south-west and the north-east are the Mecca Masjid and the Jama Masjid built in 1614 and 1598 respectively. The latter was the first mosque in the city and the former the largest, capable of accommodating a congregation of over 10,000.

Leading off from Charminar is Lad Bazaar which specialises in traditonal bridal ware; intricately carved stone and wood, coloured glass bangles, bracelets, pearls, silver filigree, silver and gold lace-work, bright silk quilts, textiles, old spices, herbs, oils and perfumes. The atmosphere, particularly at night, is indescribable: narrow winding lanes, the multi-coloured glitter of light against a rainbow of glass bangles, pan chewing men with perfumed wads of cotton behind their ears, smoking a community hookah and indulging in 'Charminar ki Gap' (Charminar gossip), women in purdah, flitting in and out of shops trying out the jewellery or the clothes in heavily screened ante-chambers.

Part of Lad Bazaar and yet distint from it, is Chor Bazaar, literally 'thief's market'. Here one can, if lucky, pick up treasures pawned by an indigent nobility for a song. For a glimpse of the lifestyle of Hyderabad's old nawabs, visit the Salar Jung Museum. It displays the private collection of Nawab Salar Jung III, nobleman and prime minister to Nizam. This is, critics says, one of the finest one man collections of art treasures and antiques in the world. Seeing it is believing.

Just west of the city lies the historic Golconda Fort, its massive battlements winding tenuously up the dust-brown hill. Founded in the 13th centuary, Golconda was rebuilt by the Qutub Shahi kings, who in 1525, made it their capital. It was they who laid out its splendid monuments and parks; it was they who designed the wonderful acoustical system by which a hand-clap sounded at the gates could be heard right up at the citadel.

From the Throne Terrace one can see the pavilions from where Taramati and Pemamati, two favourite mistresses, are believed to have sung for their Sultans. Their voices, legend insists, were so beautiful that they would carry all the way up the hillside between these points, a distance of over a kilometre. Just outside the Golconda Fort, a dusty road leads to the royal cenotaphs of the Qutub Shahi Sultans. Seven of them lie buried here. The eighth, Abul Hassan "Tana" Shah, "The Dainty King" — was taken prisoner by the Mughals and, it is said, secretly poisoned in Aurangabad.

In the southern part of the walled city, a mile south of Charminar, is the shimmering fairy castle on top of a lone hill — the Faluknuma palace. Built by the then Prime Minicter of Hyderabad, Nawab Sir Vikas-ul-Umar Bahadur for his wife in 1893, it caught the fancy of Nizam Mir Mohboob Ali Khan on his first visit in 1895 and was sold to him for Rs. 35 lakhs. The Nizam lived there till his death in 1911. The palace is a mixture of baroque and rococco

SAVING IS THE FINEST EXPRESSION OF ECONOMIC CONSCIOUSNESS

ANDHRA BANK HAS DEVISED SCHEMES TO HELP YOU EXPRESS THIS CONSCIOUSNESS IN MANY WAYS.

OUR SCHEMES ARE TAILOR-MADE TO SUIT EVERY NEED TO HELP YOU THROUGH THE YEARS AHEAD.

GRUHAKALPA	—	A Sweet Home for Everyone
KIDDY BANK	—	The Money-Making Toy for Children
KARSHAKA SAHAYA	—	Farmers—Watch Your Inputs Grow
SOCIAL SECURITY FOR WOMEN	—	A Woman's Right to Economic Independence
JANA SAHAYA	—	A Tidy Sum For Household Needs
KALPATHARUVU	—	An Eye on Future Commitments

and many such other schemes........

ANDHRA BANK — the bank responsive to people's needs

ANDHRA BANK

(A Government of India Undertaking)

Central Office: **SULTAN BAZAR, HYDERABAD-500 001.**

sometimes verging on the florid. Outside there is Italian marble, and inside, French tapestry and brocade.

Four miles west of Secunderabad is Maula Ali — an interesting combination of traditional caravansarais and modern factory smoke. There is a prehistoric cemetery of 600 tombs and excavations at this site unearthed a wide range of pottery and iron implements, among other things. Atop one of the hills in the area is a shrine — result of a dream in which Yaqoot, a eunuch, saw the son-in-law of the Prophet Mohammed, Hazrat Ali, perched upon a rock on the hill. The next day Yaqoot visited the rock and discovered, to his astonishment, the palm of Hazrat Ali imprinted on it. In honour of this, Sultan Ibrahim Qutab Shah IV constructed a shrine. On the hill opposite are sacred relice of the Prophet.

Located in the centre of New Hyderabad, the public Garden is the largest city garden in Asia. It has a Chinese sunken garden, a lotus pond and a children's park. The State Archaeological Museum, in the garden compound, is replete with sculptures, manuscripts, rare coins, old weapons and an Egyptian mummy. The Gallery of art in the same area exhibits Tanjore bronzes (some as old as the 13th centuary AD), antique paintings and rare photographs from the turn of the century.

Browse through the city's fascinating bazaars for bargains in pearls and silver filigree-work, jewellery and delightful glass or lacquer bangle sets. One can buy handwoven saris and fabrics (Pochampalli and Himroo, for instance), textiles; 'bidri' curios with their fine silver inlay in gunmetal, delicate Nirmal lacquerware, brightly coloured mirror-embroidery crafted by the Banjara gypsy-folk, Kondapalli clay toys. And then in the little antique shops of the "Shahar", the old city, you may discover old tapestries and crystal from the collections of former nawabs. Hyderadad is easily accessible, by both rail and air, from any of India's four major entry points — Delhi, Calcutta, Bombay and Madras. Accommodation is a-plenty ranging from five and four-star hotels to extremely inexpensive and clean south Indian hotels.

NEED TO DEPLOY MORE BANK FUNDS IN ANDHRA PRADESH

The total deposits of Commercial Banks in Andhra Pradesh increased from Rs. 477.10 crores at the end of December, 1974 to Rs. 1,464.65 crores by December 1979 representing an increase of 206.9 per cent. As against this, the total advances of Commercial Banks increased from Rs. 428.60 crores at the end of December, 1974 to Rs. 982.04 crores by December, 1979, i.e., by 105.7 per cent. Consequently the credit-deposit ratio of the banks has declined from 89.9 to 67.0 during this period.

The total advances of Commercial Banks in Andhra Pradesh form onfy 4.7 per cent of the corresponding All-India total while the population of the State constitutes 7.9 per cent of the country's population. It is no doubt true that the bank deposits in the State also account for only 4.7 per cent of the All-India deposits. However the initial low level of deposits is a result of existing economic backwardness of large areas in the state but does not indicate any lack of development potential. The existing restrictive credit policy which allows only 40 per cent of the additional deposits to be deployed for extending credit has resulted in further accentuation of inter-state disparities in the availability of credit while the need is for raising the level of dispensation of credit so as to at least correspond to the percentage of the State's population to the all-India.

The priority sector advances constituted 50.5 per cent of total bank advances in the State at the end of December, 1979 while the stipulated target was only $33\frac{1}{3}$ per cent. (This target has since been increased to 40 per cent to be attained by 1985). This welcome development is attributable to the fact that the State has a predominantly agricultural economy. However, it would be necessary to specify individual credit targets for different groups of weaker sections like marginal farmers, small farmers, landless labourers etc., to ensure that a dis-proportionatety larger share of the credit does not accreu to the more affluent sections.

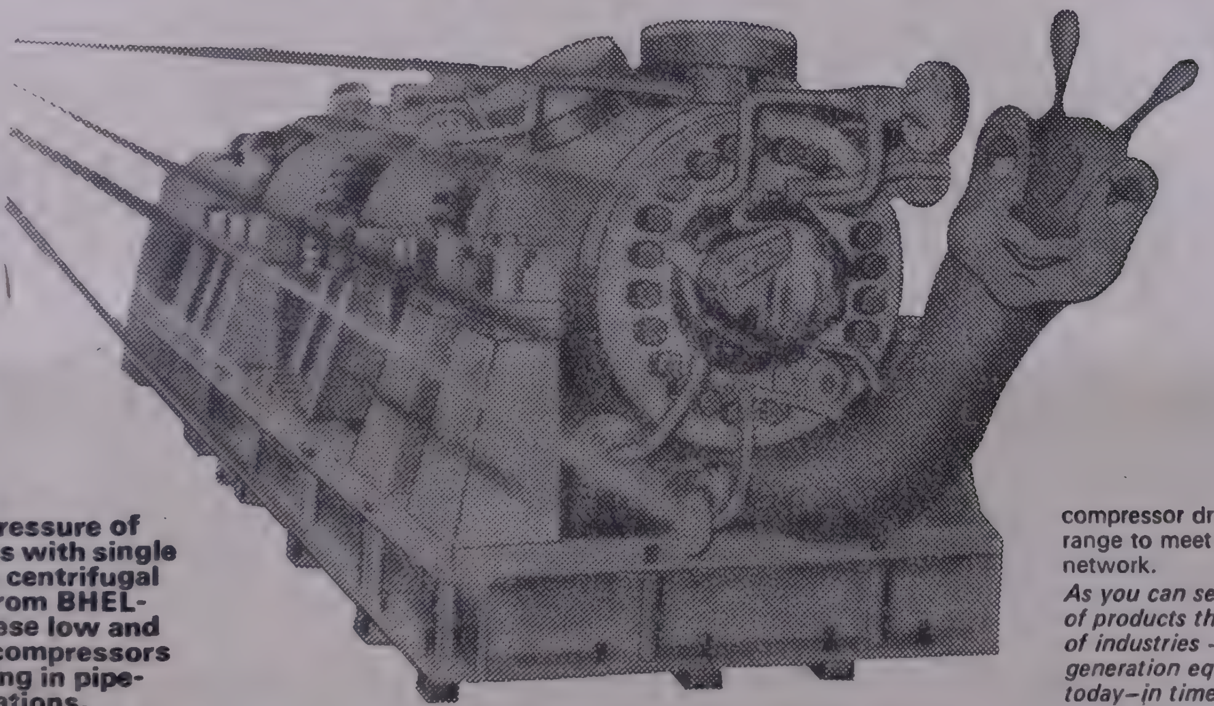
Out of Rs. 362.40 crores of outstanding advances of all Commercial Banks in the State as at the end of December 1979, the amount of fresh advances made during the year amounted only to about Rs. 101.99 crores in 1979. This is inclusive of crop loans as well as term loans. As against this, the Co-operatives have advanced Rs. 126.97 crores during 1979-80 consisting of Rs. 73.37 crores towards crop loans and Rs. 53.60 crores towards term loans.

The total working capital requirements for financing agricultural operations in the state are estimated at about Rs. 1,000 crores per year, According to the guidelines of the Reserve Bank of India, about 50 per cent of the funds have to be provided by the credit institutions. This estimate is based on the expectation that it would be sufficient to meet 100 per cent of the crop loan requirements of small and marginal farmers, 50 per cent of the crop loan requirements of medium farmers and 25 per cent of the reqirements of large farmers. It is presumed that most of the large and medium farmers have to plough back their own surpluses. On this premise, the amount to be provided through credit institutions including Banks and co-operative accounts to about Rs. 500 crores per year. This indicates the existence of a credit gap of the order of Rs. 350 crores so far as short term credit for agriculture is concerned.

The term loans for agriculture and allied activities extended by the Agricultural Co-operative Development Banks in the State witnessed a substantial increase from 32.35 crores in 1977-78 to Rs. 57.38 crores in 1978-79 and Rs. 58.14 crores in 1979-80. The amount of refinance sanctioned by the A.R.D.C. to both Co-operative and Commercial Banks in the State recorded a spectacular increase from Rs. 40.68 crores in 1977-78 to Rs. 135.96 crores in 1978-79. The actual disbursement of refinance by the A.R.D.C. also rose steeply from Rs. 38.53 crores during 1977-78 to Rs. 49.58 crores in 1978-79 and Rs. 62.00 crores during 1979-80. This is indicative of the substantial development potential that exists in the State in the form of untapped groundwater potential.

BHEL-Hyderabad products — *in time with time:*

At its natural pressure, natural gas is a poor traveller.



Boost up the pressure of your natural gas with single and multistage centrifugal compressors from BHEL-Hyderabad. These low and high pressure compressors get the gas going in pipeline booster stations, besides gathering natural gas and recycling in medium and high pressure processes.

The case for our compressors—it's split at the right place

At BHEL, we manufacture a range of centrifugal compressors—split vertically or horizontally for quick, complete access to internal parts.

Depending on the pressure and the gas you handle, BHEL can recommend you the right compressor out of six types being manufactured.

Who's been buying from BHEL?

Practically every major fertiliser, petrochemical and refining plant goes in for centrifugal compressors from BHEL, for building up the pressure of ammonia synthesis, nitrogen, carbon-dioxide, ammonia refrigeration, raw gas, natural gas and air.

A few of our many buyers:

Fertilizer Corporation of India, IFFCO, Mangalore Chemicals & Fertilizers, National Fertilizers, Rashtriya Chemicals & Fertilizers, Gujarat Narmada Valley Fertilizer Company, Cochin Refineries, Indian Oil Corporation, Bhilai Steel Plant.

Even project consultants, who shop around the world, specify compressors from BHEL.

Because they know a good compressor when they see one.

To drive the compressors BHEL also manufacture high speed compressor drive turbines of a wide range to meet any process steam network.

As you can see, BHEL make a range of products that serve a wide variety of industries — not just power generation equipment. That's BHEL today—in time with time.

Write to us for more details:

BHARAT HEAVY ELECTRICALS LIMITED

Heavy Power Equipment Plant
Ramachandrapuram
Hyderabad 500 032

Regd. Office:
18-20 Kasturba Gandhi Marg
New Delhi 110 001.

BHEL

SAA/BHEL/3118

Shortcomings of India's Export Policy

IN order to maintain stable growth rate of the economy and to earn valuable foreign exchange, the role of exports can hardly be overemphasized. The last thirty years have witnessed wide diversification of our export trade, besides many new countries we have established our trade relations with. On the eve of the planned era, India depended only on a few 'traditional' items for exports. Even today, these traditional items still play their role. Here is a treatise* which critically examines the performance of India's traditional export items, viz., tea, cotton textile and jute products, during 1950-77.

The author has confirmed the hypothesis that there is something basically wrong with our export performance. In the days, when aggregate international trade is expanding rapidly, we have been experiencing steady shrinkage of exports of these items, both in terms of volume and relative share. Dr. Dhindsa shows how it is totally fallacious to believe that the world demand for these items is dwindling. According to him, the internal supply is the main culprit.

The main factors responsible for our stagnant exports are: growing domestic demand, producers prefering domestic market due to faster rate of inflation as against the foreign markets, practically stagnant productivity of these items in India as against better performance of the foreign counterparts, cost and wage inflation at a faster rate than our competitors. During the same time-span, Pakistan, Bangladesh and Ceylon have considerably improved their share in the world total exports, showing milder inflation but higher productivity. Even on the front of quality — a dominant variable in the buoyant world market, our record is less impressive than that of our competitors. A century-old cotton textile industry of India finds it difficult to face competition with Pakistan's products. As such one can imagine how difficult it might be to compete with the giants in the industry from Japan, Germany, UK, USA and China.

Since all the three industries in India are mainly in private sector, it is perhaps easy to hold the industrialists responsible for this state of affairs. But, alas, even that consolation is not available because some of our own thoughtless policies have worsened the situation. The 1966 devaluation of the Indian rupee is a case in point. It was hoped that it would give a secular push to Indian exports, but nothing happened so far. And when the British pound sterling, and later on US dollar, were devalued in 1967 and 1971 respectively, even the so-called advantages of the rupee devaluation were largely neutralised.

Similar is the story of our tax policies. By the late 1970's, out of the value of our tea exports, nearly 25 per cent was collected in the form of export and excise duties. But East Africa, our real competitor in the world tea market, imposes practically no export duties. Sensitive world markets are to be delicately nursed for long, but here we are treating them most casually. No wonder we are losing ground due to our own faults and not due to the exogenous factors.

The author has gone ahead to suggest some remedies in terms of better sales promotion; extensive marketing research; improvements in quality, packing; tax incentives; improvements in productivity; checking cost inflation and soon. There cannot be two opinions on this prescription. But one certainly feels that the author should have elaborated the normative part of the suggestions made. For instance, why not deal with the role of commercial banks and other financial institutions? With over 50 bank branches and hundreds of trade consulates abroad, why can't we achieve positive results when our competitors are achieving miracles in world markets?

The author has presented his thesis neatly with the help of some 80 tables, which facilitate understanding and comparisons. While revising for the next edition, one hopes that some of the errors would be corrected. For example, on page 132, the income elasticity of demand for cloth is represented in percentages, or on page 172 East Pakistan's jute exports to U. K. between 1960 and 1971 are tabulated under the heading 'Bangladesh'. But, on the whole, the author is successful in emphasizing the fact that for the stagnant exports of our traditional commodities, we ourselves are to be blamed.

— Santosh Dastane

---

* INDIA'S EXPORT PERFORMANCE, by. K. S. Dhindsa, Intellectual Publishing House, New-Delhi-110 002, 1981, Pp 243, price Rs.70.

BOOKS RECEIVED

Cultural Economics by Richard Brinkman, Heritage Publishers, 4348, Madan Mohan Street, 4-C, Ansari Road, Daryaganj, New Delhi-110 002, Pp. 432, Rs. 150.

The Law of M. R. T. P. in India by H. M. Jhala, N. M. Tripathi Private Limited, 164, Samaldas Gandhi Marg, Bombay - 400 002, Pp. 344, Rs. 90.

Economics of Film Industry in India by M. A. Oomen and K. V. Joseph, Academic Press, Gurgaon, Haryana-122 001, Pp. 157, Rs. 50.

Problems on Managerial Accounting, by Nafees Baig (2nd Ed) Pp. 416, Rs 38; *Company Law and secretarial Practice* by Nafees Baig (3rd Ed), Pp. 343, Rs. 17 50—both published by Sterling publiasher Private Limited, New Delhi-110 029.

How to save Income Tax by Tax Planning (4th Ed.) Rs. 56, Pp.426; *How to File Your Income Tax Return Correctly* (3rd Ed.) Rs. 35, Pp. 172; *Know Your Income Tax Obligations* Rs. 25, Pp. 171—all by R. N. Lakhotia, published by Asha Publishing House, 1A, Love Lock Place, Calcutta-700 019.

No sunset will ever see the end of our search for quality.

Charminar AC Sheets for buildings and pressure pipes for water supply are unmatched in

- Quality
- Strength & durability

... Backed by the most up-to-date manufacturing technology and the best equipped R & D lab in the country.

HYDERABAD ASBESTOS

ASP/HACP/8122 A

Role of Exim Bank in Boosting Exports

By **V. Agnihotri** *

INTERNATIONAL trade is a highly skilled field of operation which requires a special kind of infrastructural facilities, most important of which is the banking service. The need had, therefore, all along been felt for a new financial institution which apart from discharging the normal financing and other auxiliary functions could also function in the field of trade both as development bank acting as a promoter of exports and imports and a leading financial institution providing comprehensive merchant banking facilities. In a vast country like ours, the commercial banks and the nationalised banks have many social and national obligations and, therefore, differing priorities. For them, trade is not the only priority area and hardly an earning proposition.

Foreign trade during the Sixth Five Year Plan has been projected to grow at a rapid pace and exports alone are expected to grow by 9 per cent in quantity terms. But, the world trade in recent years has witnessed a marked slow-down with further acceleration in global inflation, instability in international money market and protectionist tendencies which caused sharp adverse movement in the terms of trade of developing countries like India. According to an assessment of GATT Secretariat, the volume of world trade during 1980 is estimated to have increased by merely 1.5 per cent as against 6 0 per cent in 1979. the international trading environment is not good with the rapidly increasing trade and payment gaps in all oil importing developing countries and with increasing protectionism in the major markets of industrialised contries.

The deficit in India's foreign trade has shown a steep rise in recent years, from Rs. 6,210 million in 1977-78 to an estimated figure of Rs. 5,500 million in 1980-81. This has been mainly due to the heavy import bill on account of the sharp rise in the world prices of Petroleum products and Fertiliers.

The aggregate value of imports of POL in 1980-81 is estimated at Rs. 52,000 million accounting for almost 73 per cent of India's export earings. But such imports are very crucial for the development of the country and would, therefore, have to be allowed. In the final analysis, all imports have to be paid through exports. The Government has, therefore, adopted export promotion as the national objective with the supporting infrastructural facilities, banking, inter alia, being an important element for boosting exports. Hence the decision to set up an Exim Bank.

The Export - Import Bank of India Bill, 1981 which has been passed by both Houses of Parliament, enivisages a comprehensive role for the new Bank, particularly in granting loans and advances by it, or in participation with any bank or financial institution whether in India or outside for the purposes of export and import trade. It is also intended to function as the principal financial institution for coordinating the working of institutions engaged in financing the trade. It will have wide spectrum of business to perform which form part of the import-export trade, financing of research surveys, techno-economic studies in connection with the promotion and development of international trade and providing technical, administrative and financial assistance needed for the purpose. The EXIM Bank will also help in planning, promoting, developing and financing export-oriented concerns and disseminating market and credit information.

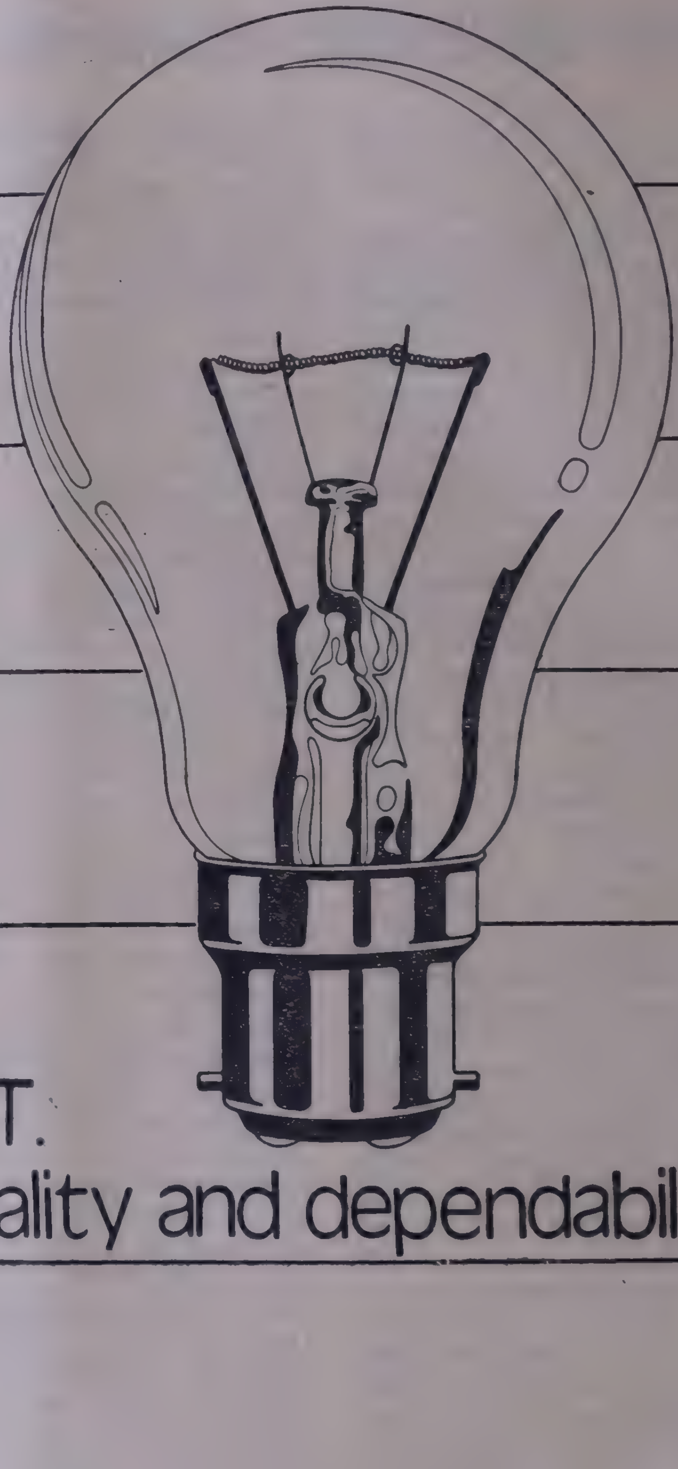
In view of the importance India attaches to joint ventures, one of primary tasks of the Exim Bank would be not only to render the much needed financial facility for the joint ventures but also as part of its promotional activities, provide the necessary capital to Indian partners to enable them to participate in the equity of these joint ventures. In view of the vastness of the contry and large network of commercial banks, most of the short-term credit will continue to be provided by the Commercial Banks. It is in the field of export of capital and engineering goods which are normally exported on deferred payment terms as also the project exports that the Exim Bank will bestow its primary attention. In the existing fierce international competion, the complexities of international trade requires a variety of financial assistance which Exim Bank alone would be able to provide in view of the very wide charter given to it and the flexibility that has been allowed in the matter of its operations.

It has been ensured that the Exim Bank does not suffer for want of resources. Apart from Government providing it with a capital of Rs. 500 million and a soft loan of Rs. 200 million to start with this will be supplemented every year both by providing additional equity and additional loan the Bank has been permitted to raise resources from the open market both in India and abroad. It will also have access to short-term and long-term funds of the RBI, in addition to accepting deposits of longer duration from public.

The Exim Bank will be managed by a Board of Directors which will consist of representatives of the Reserve Bank of India, Development Bank, Export Credit and Guarantee Corporation Ltd., and nominees of Central Government,

---

* Dr. Agnihotri is Economic Adviser, Ministy of Commerce, Government of India.



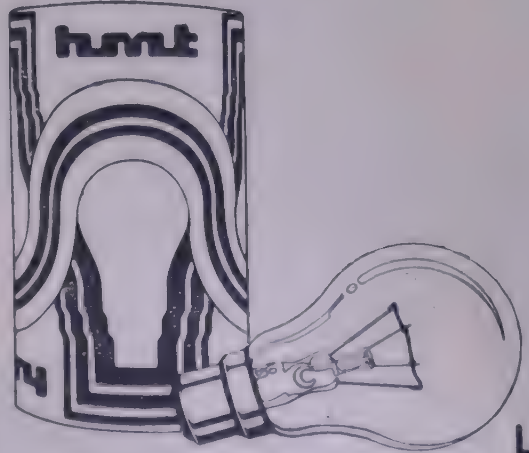
It's a bulb.

It gives light.

It gives
brighter light.

It lives longer.

It's HMT.
The last word in quality and dependability.



hmt

HMT Bulbs. The light in your life.

Rediffusion/HMT

Scheduled Banks, and trade. The exporting community will be closely involved in all policy decisions of the Bank and to ensure this, four representatives of the exporting community would be on the Board of Exim Bank.

While preparing the charter of the Exim Bank, Government have taken powers to ensure that it offers comparable services as are offered by other well-know Exim Banks such as those of U. S. A., Japan and Korea. However, in the matter of export credit insurance, it has been decided to keep export credit organisation separate from insurance institution. In fact. the charter of the Exim Bank permits it to undertaken more additional transaction than are permitted by some of the other Exim Banks. The Bank will have a special Export Develepment Fund, an unusual feature compard to other Exim Banks. This fund will be used essentially for market intelligence, surveys and other promotional activities in addition to financing of such segments of export-import trade which are vital to the country and which other institutions may not be prepared to undertake.

India being the promoter of the trade interests of the under-developed countries, the Exim Bank will also promote the setting up of similar institutions in other countries by participating in the share capital of such institutions. The Exim Bank will be set up shortly and will be able to solve the banking problems of the Indian exporters to a great extent.—*(Courtesy AIR)*

MPM's 145-crore Newsprint Project To Produce 75,000 Tonnes

The Rs. 145 crore newsprint project of Mysore Paper Mills Limited at Bhadravati is ready for formal commissioning. MPM, which started trial production of newsprint with imported pulp, is now ready to commence production with indigenous pulp. MPM's project has a licensed capacity to produce 75,000 tonnes of newsprint per annum and to increase its present 24,000 tonne capacity of other varieties of paper to 37,000 tonnes. The Company has plans to produce 45,000 tonnes of newsprint in the first year. Working at full capacity, the newsprint project will cause a foreign exchange saving of Rs. 35 crores.

The project has been financed by term loans from financial institutions and commercial banks in India to the tune of Rs. 76.46 crores; a term loan from Chemical Bank, New York, for Rs. 28.65 crores; a Development Loan of Rs. 10 crore and a soft loan of Rs. 4 crore from the Government of Karnataka and additional equity capital of Rs. 6.93 crore and internal accruals of Rs. 6 crores.

Incorporated in 1936, Mysore Paper Mills started with a small capacity of 4,000 tonnes and increased it to 8000 tonnes in 1952, to 18,000 tonnes in 1964 and to 24,000 tonnes in 1972. In September 1977, the company received the industrial licence for the latest expansion project, that is, for the production of 75,000 tonnes of newsprint and for raising its capacity for producing other varieties of paper to 37,000 tonnes per annum. Originally anticipated to go into production in April 1980, the project was delayed due to a variety of reasons, including the delay in tying up of the financial requirements, in obtaining releases of amounts sanctioned and also due to the delays in civil construction and in the receipt of materials.

Trial production was started on July 11, 1981, three years and nine months after the obtaining of the license. The heartening news of MPM starting newsprint production comes at a time when the newsprint situation in the country continues to be bleak, with the annual demand reaching 3.50 lakh tonnes and installed capacity remaining at only 60,000 tonnes.

In order to achieve the licensed production of 1.12 lakh tonnes annually, i. e., 75,000 tonnes of newspint and 37,000 tonnes of other papers, MPM requires 1.26 lakh tonnes of bamboo, 88,000 tonnes of eucalyptus and 30,000 tonnes of lops and tops of hardwood per year. The company has adopted a three-pronged strategy comprising (1) silviculture-based operations in bamboo concessional areas; (2) improvements in existing eucalyptus concessional areas; (3) raising of captive plantations in leased areas.

The concessional areas allotted to MPM are in five circles, of which Shimoga Circle is the most effective, both in terms of yield and cost of transportation incurred. The cumulative effect of silvicultural practices and follow-up by an intensive cultural operation in the concessional areas would increase the yield potential to approximately 7 to 8 tonnes per hectare in a felling cycle of 3 years as against the present yield of 3 to 3.5 tonnes per hectare per felling cycle. The Government of Karnataka, by an Order in August 1980, leased 75,000 acres (or 30,000 hectares) of land to MPM. It is planned to take up forestry in 14,000 hectares in a period of five years commencing from 1982.

L&T's Half-Year Results Encouraging

THE working results of Larsen &Toubro Limited for the half year ended September 30, 1981 show improvement over the results of the corresponding period last year. Sales during the period April-September 1981 at Rs. 85.83 crores are higher (41 per cent) against Rs. 60.75 crores in the same perid last year. The gross profit for the period is Rs. 15.45 crores against Rs. 11.29 crores. After providing Rs. 1.40 crores for depreciation against Rs. 1.25 crores last year, the net profit, subject to tax, works out to Rs. 14 05 crores against Rs. 10.40 crores last year. Order booking during the period was Rs. 119 crores compared to Rs. 85 crores last year. The order backlog as at the end of September 1981 was Rs. 165 crores compared to Rs. 137 crores as at September 30, 1980.

TISCO's Sales, Profit Higher in Apr.-Sept.-1981

The production of the Tata Iron and Steel Company Limited during the half-year ended September 30, 1981 amounted to 7.67 lakh tonnes against 7.06 lakh tonnes during the corresponding six months in 1980. The sales improved from 6.20 lakh tonnes to 6.78 lakh tonnes. TISCO's total income, at Rs. 317 crores, is higher than the previous half-year's total income of Rs. 225 crores by Rs. 92 crores. The gross profit, before depreciation and interest, amounted to Rs. 67 crores, against Rs. 34 crores in the previous half-year. The net profit, before tax, stood at Rs. 46 crores, against Rs. 18 crores in the corresponding six months of 1980.

The increase in production compared with the corresponding period last year is due to the deferring of the relining of a blast furnace (usually undertaken in April and May) to September-October 1981. The increase in profit is mainly because the company realised the full benefit of the decontrol of bars and billets effective from February 24, 1981. It does not include the sum of Rs. 14 95 crores allowed by Government, as reimbursement of cost-escalations for the previous year, in the form of a reduction in the levy payable to the Steel Development Fund. However, for statistical comparison, the figures of the previous half-year have been adjusted to reflect the proportionate cost reimbursement. During the second half of the year, the interest burden will be substantially higher due to higher capital expenditure financed by borrowings.

ACC Shows Higher Sales, Net Profit

The turnover of the Associated Cement Companies Limited has improved from Rs. 169.65 crores in 1980-81 (year ended July 31). The improvement in the sales volume, from 52.28 lakh tonnes to 58.45 lakh tonnes is largely due to improved power availability. But for inadequate supplies of coal, production and sales would have been much higher. The profit, before tax, has improved from Rs. 73.87 lakhs to Rs. 1.95 lakhs. Since there is no tax provision, the net profit stays at the same level.

Net profit has not been commensurate with the improvement in the volume of sales, mainly because of inadequate compensation for cost of coal for wet process plants, steep increases in cost remaining uncompensated and increases in the interest burden due to higher borrowings at higher rates. The recommended equity dividend is Rs. 10 per share — same as in 1979-80.

Higher Turnover By Tata Chemicals

During 1980-81, Tata Chemicals Limited registered a turnover of Rs. 78.88 crores, against Rs. 58.60 crores in the previous year. The company's pre-tax profit stood at Rs. 12.29 crores, compared to Rs. 9.26 crores in 1979-80. The distributable profit also stood higher, at Rs 6.19 crores, against Rs. 4.33 crores in 1979-80. The directors have recommended an increase in the equity dividend from Rs. 2 to Rs. 2.25 per share. A part of the increase in profits is due to a sharp turn-around in the fortunes of the Shipping Division and the fact that, despite serious set back on account of floods in the first quarter of the year, the production of soda-ash — one of the main products of the company — increased by 51,761 tonnes. The prospects for the current year look uncertain because of the heavy imports of soda ash, sharp increases in costs and the damage caused by the cyclonic storm that hit Saurashtra and Kutch recently.

SIL To Expands Its Product-Range

The Supreme Industries Limited recorded a turnover of Rs. 10.99 crores during the year ended June 30, 1981, compared to Rs. 8.89 crores in 1979-80. While the pre-tax profit was lower, at Rs. 81 84 lakhs (Rs. 84.34 lakhs in 1979 80) the after-tax profit stood at Rs. 61.54 lakhs due to lower tax liability. The recommended equity dividend is Rs. 25 per share. The company has received an Industrial Licence for the manufacture of 360 tons of Polythene Foam and Polypropylene Foam of Taloja. Commercial production is scheduled from April 1982. The company will be installing a plant having capacity to manufacture 1,500 tons of Multilayer Sheets at Jalagaon. The company also intends to manufacture Rigid PVC Pipe-fillings at Jalagaon.

Printed by K. N. Subrahmanya at Economic Printers (owners: Southern Economist Private Limited) 107, Subedar Chatram Road, opp. Kino Theatre, Seshadripuram, Bangalore-560 020 published by Mrs. Susheela Subrahmanya at 106-108, Saleh Ahmed Building, Infantry Road, Bangalore-560 001 Editor: K. N. SUBRAHMANYA

Information

SOUTHERN
ECONOMIST

December 1-15, 1981

CONTENTS

EDITORIAL 1
Realism in Banking Policy

CURRENT TOPICS 2
IMF Loan; Problem of Numbers; Lags in Power Sector; Export Front; Vijayanagar Project

Dealing with Threats to Law and Order 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Public Sector Enterprises: An Evaluation of Performance
By Radha Raman Singh
Choice of Technology: Some Issues Discussed
By N. Durairaj
Transfer of Technology from Developed to Developing Countries
By Ram Vichar Sinha
Chore Panel's Proposals—Need for Rethinking
By K. Viyyanna Rao and G. Prasad
Sales Tax Versus Central Excise Duties
By G. Dharmarajan

BANKING WORLD 25

IMF STUDY 29
Performance of Indian Economy

COMPANY NOTES 30
Bajaj Auto; DCM; Thermax Group; Britannia Industries; Mysore Kirloskar; Mukand Iron; Glaxo; Star Textiles; Tube Investments; Shipping Corporation; KSFC

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Realism in Banking Policy

ONE discerns a sense of realism in the pep talk that the Prime Minister, Mrs. Indira Gandhi, gave to the Chief Executives of the nationalised banks on November 21. A problem that was exercising the minds of the bankers was the mounting overdues of loans to the farmers and the amounts locked up in sick industrial units. Actually, Chief Ministers of a couple of states went to the extent of declaring themselves in favour of writing off such loans in the cooperative sector of banking. Predictably, this had led to a slakening of recoveries in the nationalised banking sector. Against this background, Mrs. Gandhi's advice to the bankers to pay special attention to the recovery and recycling aspect of the loaned funds will be widely welcomed. She did well to emphasise the point that the banks should handle the depositors' money held in trust by them with a sense of responsibility. These points were reiterated, at the same conference, by Mr. Maganbhai Barot, Union Deputy Minister for Finance. In fact, he was more explicit. He not only deplored the tendency to place hurdles in the way of loan recoveries but also asserted that "the basic fundamentals of commercial banking cannot be diluted for the sake of attaining quantitative targets". The targets, though important, need to be achieved without any dilution of the quality of lending.

Southern Economist is among the few economic journals which have been strongly critical of the target-mindedness of the Finance Ministry and the Reserve Bank. On several occasions in the past, we had explained how the bankers, in their anxiety to reach the targets or to conform to stipulated ratios, tended to deviate from sound banking norms. It is good to note that the limitations of this approach have been realised by our policy makers. The time has come when the monetary authority should, within the broad frame-work of the social objectives, revise the lending strategy in such a way that the bankers are relieved of their obligation to race towards lending targets either in respect of the ratio of priority sector advances or in regards to the attainment of the credit-deposit ratio for rural branches.

The Prime Minister's candid observations stem from the steady erosion in the credibility of the banks caused by (1) the mounting overdues with their concomitant of rising bad debts, (2) increasing expenditure on staff, especially over-time payment and (3) the decline in profitability caused by higher SLR and CRR and also by concessional lending to various categories of borrowers coming under the priority sector. Mrs. Gandhi's intervention should mark the beginning of a new era of competitive, consumer-oriented banking in which the slip-shod habits and unsound practices which had grown during the 12 years of nationalisation gives way to prudent management. Despite the new thrust given to deposit mobilisation during the post-nationalisation era, the banks have yet to make a serious effort to mobilise the savings of the people. This objective cannot be achieved without restoring public confidence in the banking industry.

CURRENT TOPICS

Controversy Over IMF Loan

IN his statement in the Lok Sabha on November 23, the Finance Minister, Mr. R. Venkataraman has, to some extent, allayed the fears of the opposition that the terms on which India has secured the IMF loan of $ 5.7 billion will change the direction of India's economic policy. How the Treasure Benches will fare in the forthcoming debate on the loan remains to be seen but what is clear is the fact that the loan agreement with IMF, leaked out some time ago in *The Hindu*, is not without blemish. Even so, the opposition may be needlessly dramatising its case without realising that whatever it utters on the floor of the Parliament is likely to gladden India-baiters abroad.

For one thing, it is simply not correct to say that the country's economy would have collapsed if India had refrained from approaching IMF for a loan of this magnitude. It is true, foreign exchange reserves were being depleted fast throughout 1980 and this year due to (a) the deceleration in our exports (b) the import of consumer goods like wheat, edible oils and sugar and (c) most important of all, the higher cost importing crude oil and petroleum products. Surely, the Government is not putting forward the argument that it was helpless in dealing with these adverse developments. Actually such a stand would have weakened India's case because IMF would not have sanctioned the loan to an incurably sick nation. On the other hand, IMF is impressed by India's efforts to reduce the oil import bill by intensifying oil exploration efforts within the country. The increase in the oil import bill, from Rs. 1,700 crores in 1978-79 to over Rs. 5,000 crores in 1980-81 has been a major cause of the widening trade deficit which today is of the order of Rs. 5,500 crores.

It cannot be denied that the "extended facility" of SDR 5 billion (or $ 5.7 billion) provided by the IMF, to be released over a period of three years under certain agreed terms, will provide the necessary ''cushion" to our balance of payments. The greatest merit claimed for the loan is that it will facilitate the execution of the Sixth Plan, at least in the area of external resources mobilisation. In theory, at any rate, if the promised structural readjustment takes place within a stipulated period of say, five years, then all will be well. We will be spending less on oil imports, importing less of the things that we are importing today, a satisfactory rate of export growth will fully take care of the import needs and also the debt-servicing needs and lastly, the policy changes adopted by the Government will have reduced the budgetary deficit to such an extent that it ceases to be a major cause of inflation.

But the question is: will these things happen in a preordained sequence or time-frame so that the expected happy results become apparent in the predicted fashion? It is precisely here that pessimists are on firmer ground. For one thing, India's exports, which are no doubt showing signs of improvement at the moment, may not grow by anything like 15 to 20 per cent if the recession in the industrialised countries does not taper off in 1982. Although the Commerce Ministry does not accept the concept of "exportable surplus", the fact remains that we can export only that quantity which is surplus to our consumption. In other words, exports cannot pre-empt domestic consumption. But if industrial production grows at a satisfactory rate and if harvests are bountiful, the country will be in a position to maintain exports at the desired level but that remains a big "if".

For another, the country's determination to reduce imports to the barest minimum actually gets weakened when it is assured of a massive foreign currency loan. Viewed in this light, the IMF loan may actually cause a relaxation of imports, thus defeating the very objective of correcting the balance of payments distortion. For understandable reasons, IMF frowns on import restrictions and this policy cuts both ways. The logic is unexceptionable: If you expect others to open their doors to your goods, you should, in turn, open your doors to goods exported by others.

But the major cause of the widening balance of payments gap is neither the import of industrial raw materials nor some of the consumer items like edible oil. It is the import of crude. Intensified oil exploration is likely to result in the discovery of some promising areas and even if ONGC brings the fields already discovered to the stage of commercial production, the country can achieve 70 per cent self sufficiency in oil by the late eighties. That again hinges on the extent of the assistance that we can expect from the World Bank, among others. Herein lies a paradox. Now that India has agreed to borrow SDR 5 billion from IMF, she has practically foreclosed her other options for borrowing. After all, the level of one's borrowing has something to do with one's repaying ability.

The familiar pattern of IMF lending has been than whenever a country approaches the Fund for a sizable loan, devaluation of the country's currency is insisted upon. This is based on the assuption that an overvalued currency repels foreign investment and weakens the export efforts. That IMF has not insisted on this condition is a reflection on the soundness of the country's currency. In the present era of floating exchange rates — the rupee exchange rate is adjusted on the basis of the fluctuations in a currency basket—devaluation has lost its significance. But the fact remains that since April 1981, the Rupee remains devalued to the extent of some 15 per cent *vis a vis* the dollar. Since, generally, borrowing is considered more as a sign of weakness than of strength, the Rupee can be expected to slide down in the coming months unless of course the Government succeeds in its efforts to keep inflation well within a single digit. The critics of the IMF loan may score many debating points but the Finance Minister can be expected to put them on the defensive at least on the issue of rupee devaluation. He can expose the charge of "sell out" as motivated and hollow.

As to the other conditions of IMF like the imposition of limits to public sector borrowing, following the principle of cost-based pricing in the area of administered prices and dismantling of subsidies in areas where such dismantling does not hurt the poor, it will all be to the good. Why should the opposition raise a hue and cry if the Indian Government submits itself to a certain amount of discipline and agrees to follow certain well-tested guidelines which are calculated to improving the working of the economy? The danger however lies in the possibility of New Delhi making massive defence purchases in western countries, taking advantage of the elbow-room allowed by the IMF loan. Surprisingly, there is nothing in the terms and conditions of the IMF loan which prevents the borrower from indulging in a spending spree. Could it be that in such instances, IMF conveniently chooses to look the other way?

Multiplication in Each Generation

A population study published by an Indian couple for the Washington-based organisation, Population Reference Bureau, comes to some pessimistic conclusions about the problem of numbers in this country. The 1981 census figures showed the Indian population at 684 million — some 12 million more than the earlier projected figure. The population growth rate, at 2.23 per cent, is unacceptably high although the growth rates in several developing countries exceed 3 per cent. The study by the Vasarias—Pravin and Leela Vasaria—holds out the awesome prospect of India's population reaching the figure of a billion — a thousand million—by 2000 AD. And they project the population to double in 40 years' time.

It is against these grim forebodings that one has to consider the national population policy adopted early this year. The major goals of this policy are (a) reducing the birth rate from about 36 per 1000 at present to 21 by 2000 AD; (b) reducing the death rate of 14 per 1000 to 9 and the infant mortality rate from 125 to 60 per 1000 births during the same period and to "protect" 60 per cent of the couples during the Sixth Plan compared to 22.6 per cent at present in order to achieve the above goals. There is no reason why the planners cannot achieve these goals provided they adopt an imaginative strategy which eschews coercion.

In fact, the study of Vasarias underscores this aspect and points out that the setback witnessed in the mid-seventies was due to the backlash against the coercive methods used at that time. On the other hand, the spokesmen of the Government have refuted this backlash theory and argued that the programme lost its credibility during the Janata regime. But the fact remains that the number of sterilisations started increasing from 1977-78, that is, during the Janata rule.

Be that as it may, the Government's strategy for bringing down the rate of population growth should contain an admixture of the carrot and the stick. The use of the stick does not necessarily mean the adoption of coercive methods. It just means that if the incentives that planners provide for the observance of the small of family norm do not work, disincentives should come into play: Offer of tax concessions to those who undergo sterlisation operations, withdrawal of scholarship and free studentship benefits from the fourth child onwards and job preference for the children of parents who strictly observe the small family norm. Our planners should carefully study how smaller countries like Sri Lanka and Indonesia have succeeded in bringing down the rate of population growth through the adoption of intelligently planned propaganda methods. Considering that ignorance and illiteracy—literacy rate has still not gone beyond 36 per cent in India—are the main hurdles to any effective family planning drive, the planners should adopt a multi-pronged approach which includes the eradication of illiteracy, propagation of the advantages of having a small family and elimination of destitution.

It is not as if the motivation is universally negative. In some areas of Andhra Pradesh, for example, working class women are reported to have voluntarily undergone sterilisation operations in large numbers to avoid the inconveneience of bearing too many children. There are even instances of their demanding the removal of the uterus to get out of the menstural cycle. Although this is unlikely to become a universal phenomenon, the trend seems to favour the small family norm. The planners should capitalise on these new trends to press ahead with their drive to limit the numbers.

Lags in Power Sector : Who is to blame?

THE meeting of the state power ministers, held early last month, brought to the surface the stresses and strains under which power projects are being executed in the country. And the Union Power Minister, Mr. A. B. A. Ghani Khan, had reasons to be seriously concerned over the slippage in the execution of the power plan. It is being realised that unless something drastic is done, it may not be possible to add 20,000 mW of capacity in the Sixth Plan. As the Energy Minister pointed out, the slippage so far has been of the order of 5,000 mW and covering this shortfall in the next three years would be a Herculean task. The slippage in 1980-81 was 32 per cent, and it is likely to be 22 per cent in 1981-82.

The seriousness of the situation becomes apparent when one considers that, overall, there is power shortage of the order of 15 per cent or 50 million units a day. To the economy, the slippage of just one meagawatt would mean a loss of Rs. 48,650 per day. Put another way, one day's delay in the commissioning of a 2,000 mW super thermal station would mean lesser industrial production to the extent of Rs. 30 crores. Why do these slippages occur? Most participants in the New Delhi meeting, including the Energy Minister, pointed an accusing finger at the major supplier of equipment for power projects, namely BHEL and, to a lesser extent, at Instrumentation Limited, Kota—both public sector concerns.

The familiar refrain was: BHEL was not able to deliver equipment to the power projects in time. Admittedly, the slippages resulting from delayed delivery of equipment by BHEL are serious enough but it is wondered if the remedy lies in allowing large-scale import of power plant equipment. While imports on an *ad hoc* basis for executing the new power projects according to schedule will be in order, the remedy lies in strengthening the technology base of the BHEL units further, to expand BHEL's capacity and to improve the quality of the equipment produced by it.

In fairness to BHEL, one can say that its management has taken steps not only to raise the capacity — the Tiruchi plant, for instance, has been allowed to raise the capacity to 4,000 mW — but to improve the design of its boilers to suit the high ash content of coal. BHEL is also in continuous dialogue with the state electricity boards with a view to removing the defects noticed in the working of the equipment supplied by it. It is also a fact that the electricity boards are very much in arrears—they owe BHEL more than Rs. 226 crores — and this indirectly affects the working of BHEL. While the state power ministers are justified in opposing the suggestion, made by the Rajadhyaksha committee an year ago, that the State Electricity Boards should be replaced by Regional Electricity Authorities, they should do all in their power to improve the working of these boards. For instance, the existing high rate of transmission losses (18 to 35 per cent) can be brought down to well below 10 per cent. The Boards also should (a) reduce the enormous losses incurred by them through appropriate pricing policies and (b) step up the recovery of the amounts due to them from the consumers. If these steps are taken, they will become less dependent on budgetary support or on market loans.

Considering that India has enormous resources of coal, which is the basis for thermal power generation, and that over 80 per cent the hydel potential in the country is yet to be tapped, a massive power progamme for the 80s is justified. Since power holds the key to the country's progress, the Government should consider the suggestion, recently made at an energy planning seminar held in Delhi, that in should set up a high-powered energy commission with the Prime Minister as its chairman. This will facilitate co-ordinate development of different sources of energy.

Hopeful Trends on Export Front

THE country is not yet out of the wood, to be sure, but the export trend in the first five months of 1981-82 indicates that the measures to step up exports have started yielding results. At Rs. 2,290 crores, the trade deficit for this period is less by Rs. 305 crores than the deficit during the corresponding period of 1980-81. Although the export growth rate recorded during these five months, at 12 per cent, is lower than the anticipated growth rate of over 18 per cent—a FICCI projection had put it at a still higher figure of 23 per cent — the trend witnessed during these 5-months represents an improvement over the performance in the corresponding period of 1980-81. Even if it is possible to achieve an export growth of 15 per cent in 1981-82, it constitutes an improvement over the growth rate of around 10 per cent achieved last year.

Optimism over higher export growth in 1981-82 stems from the expected increase of 19 per cent in agricultural production, a modest rise of about 4 per cent in industrial production and a GNP growth (in real terms) of 6.5 per cent in 1980-81. In other words, both industry and agriculture will be in a position to throw up a larger exportable surplus in 1981-82. A spurt can be expected under items like engineering goods, gems and jewellery, readymade garments, wool and woollen goods, chemical products, marine products, leather goods and so on. However, as a FICCI study on export outlook says, our staple exports like tea and jute will find resistance in the world market due to (a) recessionary conditions and (b) competition from other exporters. Promotional measures like the free trade zone like treatment to 100 per cent export-oriented units, facilitating imports needed for export production, longer period of pre-shipment credit and setting up of the Exim Bank will go a long way in providing a boost to our exports. With such supporting measures, it should be possible to push exports close to the target of Rs. 8,400 crores in 1981-82.

Vijayanagar Project : Still Undecided

SPECULATIVE reports which were published early this year about the Vijayanagar steel project being given the green signal appear, on hindsight, to be premature. The fact that the Steel Authority of India Limited (SAIL) accepted the detailed project report on Vijayanagar, some time in July, was taken to mean that the Centre has given the green singal for the project. The replies elicited by some members of Rajya Sabha last week from the Steel Minister, Mr. Pranab Mukherjee, on the subject, indicate that the Government has yet to take a policy decision on the steel project, to be located in Karnataka. It is evident from the replies given by the Minister that the Centre is not bound by SAIL's recommendation and that there have been no negotiations with any foreign firm for a tie up for this project.

This smacks of a step-motherly attitude when one considers that the Centre expeditiously cleared the Paradeep project, made a token provision for it in the Sixth Plan and concluded the collaboration arrangement with the British consortium, Davy International. If the Government had the necessary will, it could have asked the West German firm of Demag-Mannessman to modify the proposal which it had made for Paradeep, to suit the requirements of Vijayanagar. True, it is not easy to raise resources for a new steel mill which easily costs over Rs. 3,000 crores, but when the Centre could take up the two steel plants conceived at the same time as Vijayanagar, namely, Salem and Visakhapatnam, and when even the late comer, Paradeep, could be accommodated, the alibi of resource-constraint does not hold much water. Mannessman is not too averse to providing long-term credit and the machine building facility available at Ranchi, coupled with the designing capabilities of public sector organisations like MECON is adequate for putting up a major steel mill at Vijayanagar.

Furthermore, the absence of coal mines in close proximity to the Vijayanagar Project site cannot be considered as a major deterrent since the MECON report has shown that, by following the direct reduction route, it will be possible to use the poor quality coal available at the Singareni fields in the neighbouring Andhra Pradesh. Alternatively, if imported coking coal is considered a "must", it is possible to get coal from Mozambique, unload it at the Karwar Port and transport the same to Hubli on a new railway line that can be built for the purpose. Vijayanagar need not be made a parochial issue. There is enough demand for steel at the end of the Sixth Plan and the on-going expansion programme as also the Visakhapatnam project cannot fully meet this demand. Since the country will not be exporting steel in the foreseeable future, anyway, locating new steel projects on coastal sites does not confer any special advantage.

SOUTHERN ECONOMIST: NEW YEAR SPECIAL NUMBER, JANUARY 1, 1982

The January 1, 1982, issue of *Southern Economist* will contain in-depth articles covering various aspects of the Indian economy. Besides, a whole section will be devoted to a survey of the energy outlook.

In view of the special number, we have combined the December 1 and December 15 issues and published them together in the first week of December.

The New Year issue will be priced Rs. 5 but subscribers will get it in the usual course.

— PUBLISHER

Dealing with Threats to Law and Order

By K. N. S.

THREE kinds of threat to law and order in the country have surfaced in the recent months. They are: Threat from religious chauvinists, the threat from the upper caste *nauveau riche* who can afford to buy the silence of the police and commit atrocities on the lower castes, mainly Harijans, and lastly the threat posed by the professional class of bandits who murder, loot and commit train robberies, bank hold ups and so on. That the Government—by the Government, I mean the Government at the Centre as well as those in the states—has not been able to meet these threats effectively indicates an erosion of the authority of the administration on the one hand and the deterioration in the public morale on the other.

It is not easy to pin-point the causes for this pathetic drift. To a politically-conscious socialogist, the malaise seems to reflect the class composition of the rulers. The argument runs something like this: The majority of the law makers in the country (MLAs and MPs), the majority in the administration and the majority in the police force hail from the social strata which have nothing in common with the under-dog, namely, the scheduled castes and scheduled tribes. As such, they tend to show a bias in favour of the social groups to which they belong, while dealing with law and order problems. Heinous crimes committed by upper castes on Harijans—at Belchi during the Janata rule and at Deoli during the Congress (I) regime—to cite just two instances—do not attract exemplary punishment simply because, as the argument runs, the police who are expected to bring the criminals to book tend to be lenient towards them. The police heirarchy which shields the criminals gets rewarded in two ways. In the first place, they get the *hafta* due to them and, in the second place, they are assured of continued political patronage. It is not merely a question of the police not doing their duty; it is also a question of their over-doing it to please the propertied classes, as in the case of Bhagalpur blindings.

To the extent that the rising crime-wave is due to the upper class - police - politician nexus, the remedy lies in (a) breaking this nexus and (b) putting more of the members of the oppressed classes in the police force and in the administration. To some extent, the policy of reserving a certain percentage of jobs for SCs and STs remedies the distortion but, to make the arrangement more effective, the rulers need to judiciously change the pattern of the placings of the police and the administrative personnel in such a way that a larger number of the officers and men belonging to the lower castes are shifted to the trouble spots.

But there are many who think that the in-built contradictions of our society — I am almost tempted to say, the Hindu society — cannot be removed merely by a sleight of hand. They say, in despair, that it should get worse before it gets better. If I follow their logic, I must brace myself for a class conflict in which the long-oppressed lower castes revolt against their tormentors — the upper castes. This may well happen when, to use a word familiar to nuclear scientists, the discontent of the oppressed classes reaches — "criticality".

Violence resulting from a display of religious or sectarian fanatacism stands on a different footing. A recent instance of such display of sectarian bigotry is the display of violence by the followers of the Khalistan movement in Punjab. Secessionist movements pose a threat to the integrity of nations and when the survival of a nation is at stake, the Government is well within its right to suppress or wipe out a secessionist uprising even if it results in the spilling of some blood. New Delhi is perfectly justified in showing firmness in dealing with the hotheads of Punjab who are committing serious crimes in the name of Khalistan. History lends support to this view.

The most serious threat to law and order — hence to political stability — comes from a worsening of the economic situation and the accentuation of inequalities. It is not without significance that the rise in the crime graph and the inflation trend has moved, in the recent years, almost along parallel lines. Inflation being the greatest pauperiser, it stands to reason that the people who are so pauperised feel tempted to take the law into their own hands. Affected classes hold demonstrations, obstruct traffic or commit arson to make their plight widely known. In these instances, mass arrests, imposition of curfew, firing and so on have not helped in bringing down the number of violent incidents.

The only lasting solution to such threats to law and order is to attack the root causes of the unrest among the people: Reduce the rate of inflation and make available to the people essential commodities at prices they can afford; discourage conspicuous consumption and five star culture and start the levelling up process in right earnest. There is nothing new or original about these suggestions. Our rulers have been talking about these remedies for over three decades. If inspite of this awareness, they have not met with any measurable success in dealing with the basic problems like poverty, unemployment and inflation, it may be because the classes which ruled us so far have proved to be incapable of doing their job.

Glass House Gossip

TAKING advantage of the balmy weather in Madras, I decided to visit the city for a week-end, with a couple of working days too tagged on to it. Winter in Madras is brief, relatively, and the only months when you can switch off the fan and still feel comfortable are December and January. Even during these months, a depression in the Bay can spoil your holiday. Surely, one does not go places to sit cooped up in one's hotel room, counting the beads. Since my wife also accompanied me, partly to enjoy the brief holiday and partly to protect me from evil spirits, I may be pardoned for lapsing into the use of the first person plural, "we". When editors use the royal "we", it is either to pontificate on the lofty issues confronting the nation or to indicate that they are in the company of their better halves. In rare cases, it can also reflect an ego blown out of shape.

Before I jot down my impressions of our Madras visit, I may say something about the train — Brindavan Expess — in which we travelled. Brindavan is her usual self, with the exception of the slightly longer time it takes to reach Madras. This is explained by the speed restrictions that have to be observed along a stretch which was the scene of a nasty accident some months ago. The catering in Brindavan is to be seen, or savoured, to be believed. I do not know of any other train in which such a wide variety of snacks are served in a brief span of just five hours. Not just snacks but beverages, hot and cold, ice cream, biscuits and cigarettes — and what have you. Certainly, it would be an exaggeration to call it a gourmet's paradise on wheels but no one will contradict me if I say that one does not have to starve, while travelling in Brindavan Express. *Dosa, Vada,* sandwich, *jilebi, Peda, Barfi*, omelette— they all come in quick succession. And they keep coming till you reach Madras.

Why there should be such a great demand for eatables in Brindavan Express which leaves Bangalore after lunch and reaches Madras well in time for supper is a thing that puzzles me. Normally, those who start after a good lunch at Bangalore — most passengers do — are unlikely to have any appetite for the things that are served in the train. But resistance to food breaks down the moment the catering boys start brandishing their wares. Not only does resistance to food break down but, as the train gathers speed, food becomes an obsession—a magnificent obsession at that. My own explanation for this somewhat abnormal behavious of human beings in transit is that, between reading and eating, the latter seems to be a good antidote for boredom in travel. Reading in a moving train strains one's eyes. But, eating, on the other hand, does not have a similar effect on one's intestines. Personally, I prefer conversation to reading and eating while on travel provided the other chap does not start shooting personal questions. In these matters, I play safe. I speak only when I am spoken to.

Visiting Madras after nearly two years, one readily notices certain changes. I may put on the credit side the fact that the city is relatively clean for its age and its unwieldy population. By cleanliness I merely mean the absence of stench. And one also sees fewer slums. The Cooum river is less of an eye sore than it was say, a few years ago. On the debit side, I may put the deteriorating law and order situation. One discerns the seamy side of populist politics in the taxi drivers' arrogance and in the general attitude of low-paid employees of the Government towards the public. They have become a law unto themselves. From my hotel in Royapetta, I engaged a taxi to reach the Central station in time to catch the night mail to Bangalore and we were literally taken on a "Madras-by-night" tour, along the Beach. Even allowing for the delays at traffic signals, it was just a seven minutes' drive along Anna Salai, if the driver had followed the correct route. And the meter showed an unbelievable Rs. 15. Bureaucracy is the same everywhere but the few officers we met at Fort St. George — the equivalent of our Vidhana Soudha — appeared to me to be more accessible and less haughty than their counterpart here. How many here have the patience to exchange pleasantries like: "had your food?", "are you well?" And so on ?

At this time of the year, hotels in Madras are generally full. Even the three star hotels, of which there is no dearth, plead helplessness to the casual visitor who arrives without reservation. As to the food, the quantity theory holds sway, with due weightage being given to rice which is served not in spoonfuls but is simply shoved into your plate. Your breakfast arrives in time, be it *dosa* or *iddli* or *uppuma* but sans the ubiquitous pair of spoons. If you complain, you are marked out as an outsider. Eating with fingers is not non-U in Madras.

Tourism is picking up in Tamil Nadu. Both the Tamil Nadu Tourism Development Corporation and the India Tourism Development Corporation are in business, complementing each other. Being the editor of a small publication, I couldn't have possibly availed of the facilities that are normally available to the press (for seeing things and writing about things seen) but, in fairness to the TTDC officials, I must say, they helped me in purchasing two tickets on India Tourism Development Corporation's conducted tour which took us round Kancheepuram and Mahabalipuram on a Sunday. Generally, the tourist buses have a fair sprinkling of foreigners. The bus in which we travelled had a good number of Swiss, Spanish and Australian tourists. What fascinates these tourists is the sheer number and size of the temples for which Tamil Nadu is famous.

I realised, after making the rounds of these temples and places of archeological interest, that tourism in India partly consists of selling our myths and legends. For instance, we were to have climbed up a hillock with an unpronounceable name to witness two sacred eagles zeroing in on a particular spot at an appointed hour to partake of the food served to them but the guide of ITDC spared us the trouble of climbing the steep hillock by announcing that the birds flew away a moment earlier. The biggest crowd-puller remains the architectural marvels of Mahabalipuram. It is a pity that, even here, one is accosted by hawkers who sell "smuggled" goods which range from soaps and perfumes (I have no doubt as to the genuineness of the containers) to electronic gadgets. In this matter, they are no patch on the hawkers of Burma Bazar where most of the things made in the by lanes of Madras are passed off as "smuggled" goods.

□ □ □

Politics in India, to borrow an expression from *Alice in the Wonderland*, is getting curiouser and curiouser. Take the pattern of opportunistic alliances that have emerged on the eve of the Tirupattur Assembly election the results of which will be out before these lines are seen in print. Tirupattur, incidentally, is in the Ramanathapuram District of Tamil Nadu. It is well known that Tamil Nadu has ceased to be a Congress stronghold with the advent of the grass roots parties all of which trace their ancestry to the late E. V. Ramaswamy Naicker. What is surprising is the fact that both the ruling party, AI-ADMK and the opposition party, the DMK, are vying with each other to woo Mrs. Gandhi's Congress (I) which does not have a credible leader at the state level. Both of them are supporting the Congress (I) candidate in the Tirupattur by-election, thus virtually assuring him of a thumping victory. Although the candidates of the other parties—notably those of Janata and CPI—are also making noises, the odds are against them. The demoralisation in the camps of the two Dravida factions —AI-ADMK and DMK— is so great that Mrs. Gandhi is now in a position to say: I can win even without the support of either MGR and Karunanidhi. Are these regional leaders really afraid of Mrs. Gandhi? Just as Mr. Karunanidhi is worried over the findings of the (now moth-eaten) Sarkaria Commission's findings, Mr. M. G. Ramachandran seems to be concerned over what action Mrs. Gandhi may take on the findings of the Ray Commission. Could it be that Tirupattur marks the beginning of the end of regionalism as a political force in Tamil Nadu?

I am equally puzzled over the manner in which the Chief Election Commissioner postponed the Garhwal parliamentary by-election, due on November 22. I agree that the law and order situation in Uttar Pradesh is far from normal —it is so in many states where by-elections will be held this month—but that was not a valid reason for putting off a parliamentary by-election on the outcome of which both the ruling party and the opposition had staked their prestige. I do not know whether the opposition, which is angered by the Chief Election Commissioner, Mr. Shakdher's order, is right in accusing him of showing a bias in favour of the ruling party. Mr. Shakdher himself has pointed out a lacuna in the election law and the Law Minister reinforced this point by saying that there was need to amend the power of the Commission to postpone an election beyond a certain specific period.

The Law Minister's statement in the Rajya Sabha gives one the impression that the leadership at the Centre, which means Mrs. Gandhi, has no special interest in the outcome of the Garhwal by-election and that Mr. Shakdhar could have, if he so desired, rejected the U.P. Government's contention that the police force in the constituency was not enough to take care of the law-and-order problems that may crop up during the poll. Mr. H. N. Bahuguna, the leading candidate of the opposition, continues to complain that it is a Congress (I) plot to spoil his chances. Mr. Bahuguna is a heavy weight in the politics of Uttar Pradesh and his chances of winning are quite good. I do not think the postponement of the Garhwal poll will adversely affect his chances. On the other hand, he is sure to capitalise on the mistake committed by the Chief Election Commissioner.

Elections in India — and the controversies surrounding these elections—have changed the course of history. The Garhwal by-election may or may not trigger a political turmoil but, obviously, the ruling party is concerned over the possibility of a new wave emerging after Garhwal. In my view, one does not have to wait for the Garhwal result to spot the trend.

— Plebeian

Public Sector Enterprises: An Evaluation of Performance

By **Radha Raman Singh** *

In the recent years, the working of the public sector has come in for a good deal of criticism. This is not surprising in view of the massive investment of about Rs. 25,000 crores made both by the centre and by the state and local governments on it. In this article, the author surveys the growth of the public sector, analyses its shortcomings and suggests how its performance can be improved through the adoption of measures aimed at streamlining the working of the public sector concerns.

PUBLIC sector enterprises have emerged as an essential form of organisation for developing the natural and human resources for the society's welfare and for fostering the economic growth of under-developed countries like India. The associated goals are to develop basic industries, remove regional imbalances, discourage private monopolies and raise living standard of the people.

In India, after independence, when the country opted for mixed economy, public sector enterprises were given special impetus in pursuance of the strategy of planned economic development. The need for the public sector was felt because of the acceptance of the goal of the socialistic pattern of society. The private sector neither has the incentive nor the ability to invest in public utility services and public welfare programmes. Its main objective is to maximise profit. This does not fit in with the ideals of production according to social needs, equitable distribution of products in the society and removal of regional disparities. Therefore, public sector enterprises were given greater importance since the very inception of planning.

The socio-economic objectives of the public enterprises as set out in industrial policy resolutions of 1948, 1956, 1977 and also of the present government may be summed up as under: increased production, adequate return on investment to provide commercial surpluses to finance further economic development; protection and generation of employment, dispersal of industries in different parts of the country, development of basic and ancillary industries and gain control of the commanding heights of the economy to promote development in vital sectors in terms of social gains or strategy value rather than primarily on consideration of profit etc. The commitment to these objectives distinguishes the public enterprises from their counterparts in the rest of the economy.

In India, the public sector comprises different activities/enterprises which differ widely in their objectives, cost structure and source of finance. The classification of the sector into (i) administrative departments covering central and state governments and local authorities; (ii) departmental enterprises such as railways, posts and telegraphs; and (iii) non-departmental enterprises, i.e., autonomous bodies and financial and non-financial government companies wholly or mainly owned by the public authorities and presentation of the detailed statement under these categories bring out the role of the public sector very clearly. Over the last 30 years or so, since the commencement of planning and acceptance of the mixed economy, the stakes of the country in the public sector have increased tremendously.

The public sector in India has grown in size, depth and extent and has emerged as a major factor in the country's economic life. In a wider context, public sector enterprises in India comprise public utilities such as railways, road transport services, post and telegraphs, power and irrigation projects and several departmental undertakings along with the industrial undertakings. However, the central public sector undertakings, as commonly understood, are statutory corporations and the governmental companies with 51 per cent or more share of the Union government. The growing importance of the public sector can be gauged by their share in the successive national outlays as its share increased from 46.4 per cent in the First Plan to 54.1 per cent in the Second Plan, 58.6 per cent in the Third Plan, 60.3 per cent in the Fourth Plan and 66 per cent in the Fifth Plan. In the Sixth Plan, the share of the public sector as envisaged in the Plan outlay is 56.6 per cent.

II

The performance of public sector enterprises in India has been a subject of discussion since the very inception of Planning. The fact is that they present a mixed bag of impressive achievements as well as dismal failures and massive waste of resources. Ultimately, the picture that emerges is one of performance considerably short of what was expected or promised. The public sector is so extensive and so intimately tied up with planned development and government has already made such huge investments in this sector that it naturally catches the eyes of the people as regards their performance.

---

* Dr. Radha Raman Singh teaches in the University Department of Economics, Muzaffarpur (Bihar).

On October 1, 1980, the Central Government alone had an investment of about Rs. 17,000 crores in 189 undertakings and if we add to these the concerns under the control of state and local governments, the number of establishments in the public sector (including State Electricity Boards) exceeds 600 with investment of more than Rs. 25,000 crores. From a low figure of 5 enterprises with an investment of Rs. 29 crores in 1951 to some 189 enterprises with an investment of about Rs. 17,000 crores at the end of September 1980 as shown in Table-1 is a BIG leap forward. The area covered by the public enterprises has also widened to encompass not only the traditional fields like transport, communications, irrigation, public utilities etc., but also banking and finance, petroleum, mettallurgy, mining, machine-making, drugs, hotels and even some consumer goods and excluding railways, posts and telegraphs, other departmental undertakings and banks, the central govenment undertakings alone employed, as at the end of March 1979, nearly 1.9 million people. If state and local government establishments, nationalised banks, railways etc. were added, the persons employed would have been nearly 4 million.

Equally impressive is the picture that emerges in respect of the volume of turn over, total capital employed and the internal resources generated as shown in Table–2. But equally important items to judge the performance of the public enterprises are net profit or loss, return on capital employed and contribution of the public enterprises to the public sector plans. The turn over of the public enterprises has increased from Rs. 4.301 crores in 1969-70 to Rs. 18,936 crores in 1978-79. On total capital employed of Rs.14,175 crores in 1978-79, the return was 7.6 per cent which had increased from 3.9 per cent on total capital employed equal to Rs. 4,393 crores in 1971-72. But this increase is largely a reflection of the growth in interest on employed capital as between 1968-69 and 1978-79, this had increased from Rs.95 crores to Rs. 882 crores—a nine-fold increase as against a littte over four-fold increase in capital employed.

TABLE-1

GROWTH IN NUMBER AND INVESTMENT IN CENTRAL PUBLIC SECTOR ENTERPRISES

March end	Number of enterprises	Total investment (Rs. in crores)
1951	5	29
1956	21	81
1961	48	953
1966	74	2,415
1969	85	3,902
1974	122	6,237
1977	145	11,997
1979	176	15,602
Oct. 1, 1980	189	17,000

Source: *Yojana*, Annual Number on Public Sector in India, Vol. XXV/182, January 26, 1981, pp. 6-7.

TABLE - 2

SELECTED PROFILE OF CENTRAL PUBLIC SECTOR ENTERPRISES IN INDIA

Items	1969-70	1971-72	1973-74	1975-76	1976-77	1977-78	1978-79
Investments	4,301	5,052	6,237	8,973	11,097	12,851	15,602
Capital Employed	3,387	4,393	5,256	8,824	10,861	—	14,175
Turnover	2,650	3,540	6,777	11,688	14,542	17,556	18,936
Internal resources generated	194	215	387	526	719	731	906
Gross Profit (before tax)	139	172	272	668	1054	947	1076
Net Profit (after tax)	-5	-19	64	129	240	-91	-32
Return on Capital employed (%)	4.2	3.9	5.2	7.6	8.7	8.3	7.6
Employment (in lakh)	—	—	13.14	15.05	15.75	16.38	18.71

Source : Lok Udyog, Vol. X, No. 4, July 1976, Vol, XII, No. 12, March 1979; The Economic Times, Calcutta, January 8, 1981; Commerce, Vol. 140 No. 3590, April 12, 1980, pp.604-606.

Further, Table-2 shows that the public enterprises have shown a rising trend in the generation of internal resources. The increase has been steady. It stood at Rs. 731 crores in 1977-78 and Rs. 906 crores in 1978-79 as against Rs. 194 crores in 1969-70. But this increase shows a very negligible percentage increase of the total capital employed. In aggregate financial terms, the internal resources generated by the public sector enterprises have been comparatively meagre due to (a) low return on investment on account of price constraints imposed on some public sector undertakings; (b) take over of considerable number of private sector sick units by the Central Government in the interest of maintaining employment and production, and (c) the technological complexity of the industries which had to be promoted in the public sector where a longer gestation period and slower learning curve are inevitable.

So far as the contribution of the public enterprises to the public sector plan is concerned, they have fallen below expectations. During the Third, Fourth and Fifth plans the contributions were Rs. 435 crores, Rs. 1,145 crores and Rs. 1,470 crores as against the expected contributions of Rs. 550 crores, Rs. 2,029 crores and Rs. 2,287 crores respectively. However, the actual contribution during Fifth Plan relate to only first three years i.e., 1974-75 to 1975-76. In the Sixth Plan (1980-85), the expected contributions are Rs. 9,395 crores which constitutes 10.4 per cent of the total public sector plan.

On the employment front also, the public sector has played an important role. As per Table-2 in 1973-74, the public sector enterprises had provided employment to 13.14 lakh persons which increased to 15.75 lakh in 1976-77, to 16.38 lakh in 1977-78 and to 18.71 lakh in 1978-79. But taking the economy as a whole, the workers employed in the public sector constituted only 6 per cent of the total number of workers.

When the profit and losses of the public sector enterprises are taken into account for judging the performance, the picture that emerges shows that for the first time, these enterprises recorded a net profit of Rs. 18 crores in the year 1972-73 which increased to Rs. 64 crores in 1973-74 and to Rs. 240 crores in 1976 77. It turned into a net loss of Rs. 91 crores in 1977-78 and Rs. 32 crores in 1978-79. The gross profit as percentage of the capital employed ranged between 2.8 to 5.10 per cent in the first five years of the period commencing from 1968-69 and that in the latter five years the percentage showed a distinct improvement by ranging from between 6 2 per cent and 9.4 per cent being 7.6 in 1978-79. Thus, the decade starting from 1968 69 does not provide a satisfactory picture. The first five years from 1968-69 to 1972-73 showed neither profit nor loss, between 1973 74 and 1976-77, they showed profit but 1977-78 was a disastrous year showing loss of Rs. 91 crores followed by Rs. 32 crores in 1978-79.

According to the Report of the Bureau of Public Enterprises, of the running enterprises 88 earned a net profit of Rs. 484.75 crores during 1978-79. These included undertakings like ONGC, Indian Oil Corporation, Steel Authority of India Limited, Air India, Indian Airlines etc. which has been shown in Table-3. But these were even less than the losses incurred by 69 enterprises during the year, amounting to Rs. 516 71 crores. While a substantial part of it was accounted for by the Coal India Limited and its subsidiaries (Rs. 212 crores), a number of other undertakings like the Shipping Corporation of India, (Rs. 44 crores), Indian Iron and Steel company and Heavy Engineering Corporation (Rs. 27 crores each), Hindustan Fertilizer Corporation (Rs. 22 crores), Indian Petro-chemicals Corporation etc. have also contributed substantially to the account of the losses which is apparent from Table-4. Thus, the public sector undertakings under Central Government grew from 73 in 1968-69 to 176 in 1978-79, the number of loss making enterprises also rose from 32 to 69 during the same period and correspondingly the quantum of losses increased from Rs. 94.2 crores in 1968-69 to Rs. 516.71 crores in 1978-79. A report of the Bureau of Public Enterprises for the first and second quarters of 1979-80, shows a further decline in the public sector. In the half year ending September 30, 1979 over 130 enterprises were together showing a loss of Rs. 156 crores. Furthermore, the loss making enterprises had already incurred a net loss of Rs. 236.56 crores (after tax) in the first quarter (April-June) of 1980 and the highest loss of Rs. 40.32 crores was incurred by Coal India Limited and its subsidiaries followed by the Indian Iron and Steel Co. Ltd. with a staggering figure of Rs. 38.19 crores.

TABLE—3

TOP TEN PROFIT MAKING PUBLIC ENTERPRISES (1978-79)

Name	Amount (Rs. in crores)
ONGC	72.52
Indian Oil Corporation	69.20
SAIL	65.84
Air India	34.09
Bharat Heavy Electricals	25,15
Madras Fertilizers	18.15
MMTC	16,75
STC	13.64
HPC	11.96
Indian Airlines	11.42
Total	338.72

Source : Commerce, Vol. 140, No. 3590, April 12, 1980, p. 606.

TABLE—4

BIGGEST LOSS MAKING ENTERPRISES (1978-79)

Name of the Enterprises	Amount (Rs. in crores)
Coal India Group	212.16
Shipping Corporation	37.01
HEC	27.48
Indian Iron	27.19
Hindustan Fertilizer Corporation	22.92
Delhi Transport Corpn.	17.49
Fert. Corpn. of India	15.24
IPCL	13.10
MAMC	10.06
Total	382.65

Source: Commerce, Vol. 140, No. 3590, April 12, 1980, p. 607.

Apart from profitability, capacity, utilisation is the other main yardstick of performance of public enterprises. When we look at the capacity utilisattion position of public enterprises in India, it has also shown a decline. An analysis of 99 enterprises covering 185 manufacturing units made by the Bureau of public Enterprises notes that while 76 units recorded more than 75 per cent utilisation in 1976-77, the units which recorded utilisation above this level in 1978-79 numbered only 62. The number of units where capacity utilisation was between 50 per cent and 75 per cent increased from 24 in 1976-77 to 31 in 1977-78 and to 42 in 1978-79.

Similarly, the number of units recording less than 50 per cent capacity utilisation increased from

TABLE—5

MEASUREMENT OF CAPACITY UTILISATOIN IN MAJOR SECTORS (1976-77 to 1979-80)

(Per cent)

Sl. No.	Sector	1976-77	1977-78	1978-79	1979-80
1.	Saleable Steel (Integrated plants)	91.9	90.3	81.5	69.1
2.	Aluminium	83.5	61.3	66.4	58.2
3.	Fertilizers (N) (Stabilised Plants)	83.6	82.3	83.3	76.6
4.	Fertilizers (P_205)	66.0	78.0	73.4	61.5
5.	Cement	86.6	88.8	85.6	72.6
6.	News Print	76.9	74,7	64.0	63.2
7.	Paper and Paper Board	79.0	76.0	72,4	68.2
8.	Power Generation Thermal (All-India Average Per cent Capacity Factor)	56.0	50.8	48.4	45.0
9.	Railways (Index of Net Tonne-Kilometers Freight Traffic, 1950-51-100)	356	369	351	350

Source : Government of India, Planning Commission, Sixth Five Year Plan 1980-85, p. 32.

17 in 1976-77 to 27 in 1977-78 and to 42 in 1978-79. Table-5 shows the trend in capacity utilisation upto 1979-80 in major public sectors of the economy which has been a matter of considerable concern because in most cases there has been a decline after 1976-77. The capacity utilisation declined from 91.9 per cent in 1976-77 to 69.1 per cent in 1979-80 in the Steel sector, from 83.5 per cent to 58 2 per cent in Aluminium sector, from 83.6 per cent to 76.7 per cent in the Fertilizer sector, from 86.6 per cent to 72.6 per cent in the field of Cement and from 56 per cent to 45 per cent in the field of the Thermal power generation during the same period. Similarly, the index of net tonne-kilometers freight traffic in railways declined from 356 in 1976-77 to 350 in 1979 taking 1950-51 as 100 for the purpose of indexing.

III

One consideration is that the public sector has to bear social responsibilities and therefore, it is not fair to judge its performance purely in terms of profit. It is undoubtedly a fact that the public sector enterprises incurred a loss of Rs. 32 crores in 1978-79 and loss making enterprises numbering 69 had shown a loss of Rs. 517.7 crores but there were also 88 enterprises which had shown a profit of Rs. 484.7 crores. But even after making an allowance for social responsibilities borne by the public enterprises, they have shown low profitability. The social responsibility that the public sector is supposed to bear takes the form of provision of employment and wage-benefits, housing facilities and administered prices in consonance with public needs. The Report of the Bureau of Public Enterprises points out that the total provision of employment in the public sector enterprises was 18.7 lakhs at the end of March 1979 as compared to 16.4 lakhs in the previous year. The total emoluments including benfits received by the employees during 1978-79 amounted to Rs. 2,064 crores as against Rs. 1,646 crores in the previous year. The average *per capita* emoluments of the employees increased from Rs. 10,048 in 1977-78 to Rs. 11,031 in 1978-79 an increase of approximately 10 per cent.

TABLE-6

SHARE OF THE PUBLIC SECTOR IN NET DOMESTIC PRODUCT IN INDIA

(Rs. in crores)

Year	Total Net Domestic Product (at factor cost)	Net Product of the Public Sector			Total Net production of the Public sector
		Administrative Departments	Departmental Enterprises	Non-departmental Enterprises	
1960-61	13,335	735 (5.5)	522 (3.9)	165 (1.3)	1422 10.7)
1965-66	20,801	1367 (6.5)	890 (4.3)	486 (2.4)	2743 (13.2)
1970-71	34,519	2401 (7.0)	1330 (3.8)	1276 (3.7)	5007 (14.5)
1972-73	40,572	2931 (7.2)	1535 (3.8)	1748 (4.3)	6214 (15.3)
1973-74	50,749	3305 (6.5)	1559 (3.1)	2364 (4.6)	7228 (14.2)
1974-75	59,737	4133 (6.9)	1965 (3.3)	3428 (5.7)	9526 (15.9)
1975.76	62,394	4720 (7.5)	2367 (3.8)	4285 (6.9)	11372 (18.2)
1976-77	67,597	5173 (7.7)	2840 (4.2)	5292 (7.8)	13305 (19.7)
1977-78	76,330	5587 (7.3)	3105 (4.1)	5787 (7.6)	14479 (19.0)
1978-79	81,429	6129 (7.5)	3251 (4.0)	6607 (8.1)	15987 (19.6)

Source: Government of India, Central Statistical Organisation, National Accounts Statistics, January and 1979 January 1981,

Note: Figures in bracket indicate percentage to total net domestic product.

Public sector undertakings spent Rs. 92 crores on social services such as education and medical care during 1978-79, as many as 83 public sector enterprises were providing housing facilites to their employees during the same period and the capital outlay on townships in these undertakings was Rs. 554 crores at the end of March 1979 which constituted 3.5 per cent of the total gross investments in fixed assets and about 5lakh residential units had been constructed till the end of March 1979 in these public sector enterprises. These are, no doubt, impressive figures and the private sector, admittedly, does not match the public sector in this respect, but their impressiveness, if seen in proper perspectives, particularly in respect of investment, are not found satisfactory.

Table–6 gives an overall idea of the share of the public sector in net domestic product for the years 1960-61 to 1978-79. The results show that the share of public sector in net domestic product has been steadily rising over the years from 10.7 per cent in 1960-61 to 14.5 per cent in 1970-71 and to 19.6 per cent in 1978-79 with a marginal decline in 1973-74 and 1977-78 being 14.2 per cent and 19.0 per cent respectively. The increase has been primarily on account of bigger contribution of non-departmental enterprises whose share has continuously increased from 1.3 per cent in 1960-61 to 3.7 per cent in 1970-71 and upto 8.1 per cent in 1978-79. The factors contributing to this rise in the share of non-departmental enterprises are expansion and establishment of new enterprises as well as nationalisation of private enterprises. The share of the departmental enterprises has remained more or less constant as its share in the net domestic product was

TABLE-7

SHARE OF PUBLIC SECTOR IN NET DOMESTIC CAPITAL FORMATION IN INDIA

(Rs. in crores)

Year	Total Net Domestic capital formation	Net capital formation in Public Sector			Total share of the Public Sector
		Adminis-trative Depart-ments	Depart-mental Enter-prises	Non-depart-mental Enter-prises	
1970-71	5127	581 (11.3)	720 (14.0)	1023 (20.0)	2324 (45.3)
1972-73	5857	1014 (17.3)	990 (11.8)	1010 (22.3)	3014 (51.4)
1973-74	8329	1325 (15.9)	1103 (13.2)	1660 (20.0)	4088 (49.1)
1974-75	10983	1080 (9.8)	1350 (12.3)	2529 (23.1)	4959 (45.2)
1975-76	12361	1221 (9.9)	1555 (11.8)	4055 (33.6)	6831 (55.3)
1976-77	13276	1306 (9.8)	1833 (13.8)	4393 (33.1)	7532 (56.7)
1977-78	13444	1182 (8 8)	2048 (15.2)	3023 (22.5)	6253 (46.5)
1978-79	16925	1574 (9.3)	2512 (14.8)	4619 (27.3)	8705 (51.4)

Source : Government of India, Central Statistical Organisation, National Accounts Statistics, 1970-71 — 1978-79, January 1981.

Note : Figures in bracket indicate percentage to total net domestic capital formation.

only 4 per cent in 1978-79 as against 3.9 per cent in 1960-61. Increase in the share of administrative departments was considerably much lower than the increase in the percentage share of the non-departmental enterprises as it was only 7.5 per cent, even lower than the non-departmental enterprises in 1978-79. While they shared 5.5 per cent in 1960-61 as against the share of 1.3 per cent of the non-departmental enterprises. This clearly shows that autonomous bodies are more suitble for the Indian economy as regards the contribution to the net domestic product or productivity aspect as a whole. But all the enterprises owed by the government accounted for 12.1 per cent of the total net domestic product in 1978-79 taking together departmental and non-departmental enterprises.

In the case of capital formation, public sector's share is larger at current prices. The percentage share of the public sector in net domestic capital formation, as shown in Table-7 though presents an erratic trend but the aggregate share comes a bit more than 50 per cent that presents an impressive picture and thus, it can easily be inferred that in total net capital formation of the country, more than half is contributed by the public sector. When, within the public sector, share of different types of enterprises are taken into account, again non-departmental enterprises are ranked first as their contribution in the net domestic capital formation was 20 per cent in 1970-71 which increased to the maximum of 33.6 per cent in 1975-76 but declined in 1977-78 and 1978-79 contributing 22.5 per cent and 27.3 per cent of the total net domesic capital formation respectively. The contribution of departmental enterprises which stood at 14 per cent in 1970-71 reduced to 11.8 per cent in 1975-76 and was 14.8 per cent in 1978-79. The aggregate share remained around 14 per cent presenting a stagnant position in respect of contribution to the net domestic capital formation on the other hand, contribution of the administrative though increased from 11.3 per cent in 1970-71 to 17.3 per cent in 1972 73 but since then it presents a declining trend contributing only 8.8 per cent of the total net capital formation in 1977-78 and 9.3 per cent in 1978-79. Thus, the contribution of the public sector has been more than half of the total net capital formation but among the different types of enterprises, non-departmental enterprises have played remarkable role. Together the government owned enterprises constituted 42.1 per cent of the total net domestic capital formation of the country in 1978-79.

In the field of domestic saving the relative importance of public sector has been declining with value fluctuations. Year to year fluctuations in the net domestic savings have been very sharp. While in absolute terms the savings of the public sector increased from Rs. 123 crores in 1950-51 to Rs. 3,362 crores in 1978-79, i. e., a rise of 27-fold, its percentage share in total net savings increased marginally from 18.9 per cent of the total net savings of the country of 19 per cent during the same period. The peak of 30.2 per cent was reached in 1964-65. Thereafter, for the decade ended 1973-74 it was hovering around 16 per cent. It rose to 23.7 per cent in 1976-77 and declined to 19.0 per cent In 1978-79 for the latest year for which data are available. Thus, in the case of domestic saving of the country, about one-fifth only comes from the public sector.

IV

The public sector has, during the past three decades, largely succeeded in capturing the heights of the economy. It has also made significant contribution to the country's industrialisation programme. It has generated additional employment and has played remarkable role in promoting balanced regional development in the country. The performance of the public sector cannot be judged on the basis of the yardstick normally applied to the private sector because the public sector has to work with certain broader socio-economic objectives and has to devote greater attention on research and development for achieving essential goals of technological self-reliance.

Therefore, the performance of the public sector enterprises ought to be measured by its contribution to development rather than by commercial profitability. The profitability and efficiency of the public sector enterprises are also affected by factors such as long gestation periods in the case of plants to manufacture basic inputs; incorrect location of projects to remove regional and economic imbalances; take-over of sick units; pricing policy to meet the social objectives; social justice and welfare of the employees: tying up to specific technology avialable in a particular country to avail of aid from that country; excess costs because of tied aid; inflated employment; social obligations, and inefficiency of managerial skill resulting in at times bureaucratic rather than commercial approach to problems.

While it may not be proper to apply to the public sector enterprises the same yardsticks for judging performance as for the private sector enterprises the question remains: Can the country continue to accept a low rate of return from public enterprises indefinitely on such huge public investments? If not, the need is to find out the reasons behind the deficient performance of even such enterprises which could have shown better performance, if not upto the mark.

There have been a variety of factors affecting the working of the public enterprises which may be categorised as financial, non-financial, environmental and managerial. Heavy construction cost with long gestation period, acceptance of administered prices rather than market prices, adoption of a minimal acceptable return on capital together with subsidisation of consumers in place of rate of return approach, managerial inefficiency and indifference, continuance of bureaucratic intrusion without any efficiency accountability, domination of politicians in policy making, reduction of effectiveness of the executives due to the insecurity of tenure, unsatisfactory public relation system etc. are some of the major factors affecting the working and profitability of public enterprises in India.

Unproductive expenditure of the public sector enterprises has risen enormously over the years. An element of cost consciousness must be introduced in the management of public enterprises and greater stress on full capacity utilisation, better utilisation of resources, improved financial and material management and an effort to reduce inventory level would greatly help in improving the performance of public sector enterprises. Conflict of objectives as inherent in public sector enterprises in India badly tarnishes the character of the company and hides the ineffiiciency of the management. Therefore, the objectives of the public sector must be clearly defined so that the task of the public relations may become easier one.

Therefore, there is the need for substantial improvement in the working and performance of the public sector enterprises. For this purpase, the need is to bring pricing policy in line with prudent commercial norms, improve management practies for optimal utilisation of capacity and higher levels of technical efficiency; check delays in the implemantation of policies to increase productivity; introduce modern techniques of project monitoring and construction management to avoid the excessive costs inherent in the serious slippage in the construction of projects; steadily promote the professional management and industrial culture in the public sector enterprises; create a strong and congenial public relation system, and to introduce an intensive institutionalised programme of induction and short-term training for senior public sector managers to ensúre continuous availability of trained and motivated personnel for top level positions in the public sector. With these improvements and changes we may hope to achieve a high rate of growth with distributive justice in the public sector enterprises in India which would be conducive to socio-economic transformation in the country.

INDIA—THE TURBULENT HALF-DECADE

BY K. N. SUBRAHMANYA

(200 pages : Price Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first years record.

SOME OPINIONS

Subrahmanya's strong point is that he writes as an observer and not as a protagonist of this or that party or group. —*Commerce*

His style is unostentatious, his approach dispassionate and his logic forcible. —*Capital*

He has stated certain unpalatable facts. —*Patriot*

There is much to ponder in this little book. —*The Mail*

The book gives an in-depth and impartial analysis of recent political events. —*P. I. B. Nayar, Journalist, London*

You have made many thought-provoking points.—*N. A. Palkhivala*

Since long, we have not come across such an objective review of the Indian political scene.

—*Dr. Susheela Gosalia, Author, Mannheim, West Germany.*

Copies can be had from: **Southern Economist,**
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

Choice of Technology: Some Issues Discussed

By **N. Durairaj** *

The success of a development strategy hinges largely on the kind of technology that the planner chooses for hastening the industrialisation of a developing country. In making this choice, one has to bear in mind the social environment and the resource-endowment of a country. In this article, the author analyses the concept of appropriate technology and provides some useful hints on how the planner should go about his job.

THE material wealth of a country depands on the production of goods and services through the coordinated use of the available supplies of human skills, capital, land and natural resources. Technology contributes to increase the utility of available resources and improve the productivity through increased skills, better methods and better machines. Technological change has become an inevitable feature of economic development. It does not create many problems in an already industrialised country since the process of development is self-generating. But in less developed countries where the level of technological infrastructure is very low, it is necessary to consider the various aspects of the problem carefully.

Technology is not merely choosing an efficient process of production, but must be viewed essentially as an instrument to achieve socio-economic objectives. The technologies of an advanced industrialised country have been developed in response to the needs and conditions of that country, particularly with large markets, resources and with comparatively high incomes. The western consumption patterns, conspicuous and ostentatious living and enormous production of wastes cannot fit in an environment with limited resources.[1] The development of most of the western countries took place at a time when the industrial revolution had opened up the frontiers of large scale industrialisation. The extent to which known-technologies can be adopted to suit local conditions is limited and the adaptation itself may be expensive. Choice of technology in less developed and labour-surplus countries should be governed by the utilisation of increased amount of labour and not reduction in labour. From the point of view of employment, there would seem to be scope for the development of new technologies better suited to local costs and resources often described as appropriate or intermediate technology.[2]

In recent years, many writers have suggested the adoption of intermediate technology or appropriate technology by the less developed countries in their programmes for industrialisation and development. A distinction between these two types of technologies must be recognized though no clear cut distinction is made between them in the available literature on development economics. It would be a mistake to describe all those technical innovations adopted in less developed countries and, which are not modern and sophisticated like those of the advanced countries as intermediate or appropriate technology.

Intermediate Technology: The term, intermediate technology, was first used by E F. Schumacher, in a paper on "Reflections on the problems of Bringing Industries to Rural areas" presented to the Indian planning Commission in November 1962.[3] According to him an underdeveloped country like India is characterised by scarcity of capital and abundant supply of labour and therefore it required a technology quite different from that of an advanced country. If the adoption of sophisticated technology in an ahvanced country involves the use of machines costing £ 1000 per work-place and the treaditional technology in a less developed country involves the use of machines costing £ 1 per work-place, adoption of an intermediate technology in such a less developed country would entail the use of machines costing £ 100 per work-place.[4] In an advanced country where capital is abundant and labour is scarce, the objective in employing sophisticated technology is maximum production with minimum cost. But in a developing economy where capital is scarce and labour is abundant in supply the objective, should be not only maximum production with minimum of cost but also maximum employment.

The level of technology associated with intermediate technology is defined either in terms of required capital investment or in terms of earnings of workers per day. Intermediate technology does not necessarily involve use of less efficient equipment or import of capital equipment. It implies effective association of the available productive skill of the region with the investment potential of the area, taking into account availability of the resources. The basic assumption implied in the concept of intermediate technology is that the optimum levels of production in different regions and for different commodities require different levels of technology.[5] However, adoption of intermediate technology does not involve the use of inferior machines.

Schumacher does not make a distinction between intermediate and appropriate technologies. He considers intermediate technology as the appropriate technology, for a developing coutnry. He recognises that it is not possible to arrive at any simple and clear-cut definition. "The intermediate technology will not reject any, not even the most modern devices, but it equally does not depend on them."[6] Therefore, it is the circumstances that decide what is best and it is the principal task of every developing country to apply a technology that is really appropriate to its circumstances.

---

* Mr. Durairaj is Lecturer in Economics Madurai Kamaraj University Madurai — 625 021.

Appropriate Technology: Since the use of the term "Intermediate technology" is likely to give rise to the mistaken impression that its adoption involves the use of less efficient or inferior machines and also to emphasize the importance of achieving optimal level of production in choosing a particular level of technology' many writers prefer the term 'appropriate technology'. Few concepts have generated more controversy in the development literature than 'appropriate tech nology'. The appropriate technology is a young but a rapidly growing body of knowledge.

Morawetz defines appropriate technology as the set of techniques which make optimum use of available resources in a given environment.[7] He further elaborates that for each process or project, it is technology which maximizes social welfare if factor prices are shadow priced.[8] This definition leaves social welfare functions undefined. It is difficult to operationalize from Morawetz's concept of appropriate technology to arrive at a set of criteria for the evaluation of appropriate technology. According to Eckaus, the criteria for evaluating the appropriateness of technological discussions is with reference to the general goals of development.[9] The present author defines appropriate technology as Eckaus has done. Harlan Davis has commented on appropriate technology as follows :[10]

> Appropriate technology implies innovation 'whether it be innovation based on adaptation of already existing techniques or development of completely new and unique techniques applicable to local conditions. But we are discussing a model of innovation different than that found in the industrialized nations. Whereas in those countries innovation has tended toward saving on relatively scarce labour resources, it must tend toward greater utilisation of that scarce resource in less developed contries.

The appropriateness of any particular technology for a developing economy is determined by proper assessment and evaluation of comparative advantages. Such an evaluation must be based on (a) the utitization of the surplus labour, (b) comprehensive study of the prevailing level of demand for any commodity, (c) the total cost of producing the product with alternative technologies and (d) the availability of raw materials.[11] In choosing a particular level of technology with relevant scale of operations - small scale - or large scale - various constraints along with local conditions and possibilities of production must be taken into account. Appropriate technology, therefore, is more related to social conditions and economic environment than to the level of technology and degree of sophistication of mechinery employed.[12] The efficiency of appropriate technology must be judged in relation to a rival and alternative but efficient technology employed in other economic conditions and environment. In sum, the development stratagy should be devised in such a way that it would be appropriate to the material, technical and organisational resources of the less developed countries.

REFERENCES

1. "Technology—A point of view," The Hindu, dated 11-2-80.

2. Graham Jones, The Role of Science and Technology in Developing Countries, Oxford University Press, London, 1971, P. 24.

3. Bepin Behari, Economic Growth and Technological Change in India, Vikas Publishing House (Pvt) Ltd., Delhi, 1974, P. 103.

4. E. F. Schumacher, Small is Beautiful, Radhakrishna, First Indian Reprint, New Delhi, 1977, P. 167.

5. Bepin Behari, op. cit.. P. 104.

6. Gerald M. Meier, ed. Leading Issues in Economic Development, Oxford University Press, Hongkong, Second Edition, 1971, E. F. Schumacher, "Industrialization Through Intermediate Technology," P. 358.

7. Fong Chan Onn, "Appropriate Technology: An Empirical Study of Bicycle Manufacturing in Malaysia," Developing Economies, Tokyo, Vol. XVIII, No. 1, 1980, PP. 96-115.

8. Ibid.,

9. Ibid.,

10. L. Harlan Davis, "Professor Brown's Apropriate Technology and the Grass Roots" Developing Economies, Tokyo, Vol. XVII, No. 1, 1977, PP. 117-123.

11. Bepin Behari, op. cit., P. 105.

12. Ibid.,

AND NOW, BOTTLED COCONUT WATER

Ripe coconut water need no longer be wasted now thanks to a simple technique developed by the Regional Research Laboratory (RRL), Trivandrum for upgrading and preserving it in bottles. The advantages of bottled coconut water over traditional tender coconut water, consumed largely as a cool drink during summer, are obvious. Tender coconut water, because of its poor keeping quality, can reach only places not far from production centres while the bottle-preserved coconut water can have market throughout the country and through all seasons. What is more significant from the economic point of view is that the process is aimed at waste utilization.

Kerala alone, for instance, produces more than four billion coconuts per annum of which 50 per cent is used for copra-making. Ripe coconut water available to the tune of 270 million litres from copra-making units in the state is at present wasted. The method of upgrading ripe coconut water to the level of tender one and preserving it in bottles would, when adopted, be an additional income to copra-making units. Manufacturers of desiccated coconut and partiallly defatted coconut gratings would also benefit. Technology for making defatted coconut grating is already available to industry. Furthermore, the technique for upgrading and preserving ripe coconut water could obviate the need to harvest tender coconut for beverage purposes.

It has been found that bottled coconut water has a long storage life, of more than two months, at ambient temperature. Consumer evaluation studies have also shown that the product is fully acceptable. The process is also technically feasible and economically viable and can be operated by small-scale units near copra-producing areas. Also, the plant and machinery required for commercializing the process are indigeneously available.

Transfer of Technology from Developed to Developing Countries

By **Ram Vichar Sinha** *

No new light has been shed on the on-going controversy over what constitutes approprlate technology for the countries of the Third World. Meanwhile the developing countries, in their desire to keep up with the Joneses, continue to import technologies which have only added to the economic problems facing them. In this article, the author analyses the technology-related issues and pleads for a flexible policy for India which is emerging as a major exporter of intermediate technology.

TECHNOLOGY transfer is just a means to an end and never an end in itself. The choice of the method of technology transfer is of a complex nature though it chiefly depends on the factors such as the supply of capital, availability of competent entrepreneurship as also the state of industrially developmental processes. There are mainly three ways of introduction of technology into an economy which may be detailed as below : (a) by setting up foreign-owned firms in a country, (b) by setting up joint ventures and (c) *by establishing* firms and purchasing only know-how from abroad. Import of technology *via* joint ventures decidedly has some shortcomings in so far as it involves some outflow of foreign exchange, secrecy clauses as also the control of the enterprise. While deciding upon the policy for import of technology, an economy has to make compromising arrangements with regard to the combinations out of the above three ways without any bias according to the need and availability of the technological know-how in the country. Technology transfer in developing nations like ours is thought to be essential in view of the fact that the existing highly costly technology is unable to serve our huge population.

With the establishment of the goal of the New International Economic Order in 1974, a detailed action programme was chalked out and consequently the new order emphasised that the developing countries should be given access to the achievements of modern technology. In the words of Lord Blacket, the technology transfer and diffusion has been the result of a cultural, social and political process and not merely the imitation of manufacturers. The ultimate goal of transfer of technology is to provide the essential base for indigenous technology. The role played by the transnational corporations in the process of transfer technology is prominently significant. Their production in recent years has been on the increase at the rate of ten per cent annually which amounts to about twice the growth rate of the world output and half of the world trade.[1]

Thus, it can be concluded that they can influence the economic and political conditions of developing countries seriously. The advanced countries receive considerable payments from the contribution made by transferred or exported technology to developing countries. However, liberal the terms of transfer of technology may be, the payment in the shape of royalty or outright buying would be colossally heavy for the developing economies.

The in-depth studies by the United Nations in 1973, the study Group led by L. K. Jha in June 1974 and the Department of Economic and Social Affairs of the United Nations in its Working Group report have highlighted the importance and positive role of technology transfer in international economic development. One of their major recommendation aims at bringing about technology transfer and management skills to developing countries on equitable terms. The transnational corporations have had the opportunities of generating and evolving technologies in advanced countries based on intensive research suited to the socio-economic and climatic conditions. Not that they bear the risk of their commercialisation. The number of scientific journals and reviews which was only one hundred at the beginning of the last century is expected to increase upto ten lakh by the end of present century.[2] The New Economic Order has exhorted that all efforts should be made to formulate an international code of conduct for the technology transfer in keeping with the socio-economic conditions prevalent in the developing countries and to adapt commercial practices governing technology transfer to their requirements as also to prevent abuses of the rights of sellers. The scope of application of right type of technology indigenous or imported in agricultural sector is very wide so as to raise the per capita productivity of the masses living in rural areas on global scale.

The magic of new technologies now cannot be locked up in a few laboratories. Rather, it has got to be exposed to the general public so that significant technology may reach quickly the commercial world of usuable products.[3] It is said that commercial control never really eliminates people but in fact can create jobs. Because of expensive machines the management feels more pressure to keep them busy with work. This often necessitates going from a one shift operation to two or three shifts creating opportunities for more jobs to the operators. With the help of technology transfer, the scope of magnitude of the data communication market may be widened in the areas of alarm signalling, banking, vending, voting, billing, ticketing etc.[4]

---

* Dr. Ram Vichar Sinha is Head, Department of Economics, Gopeshwar College, Hathwa (Bihar Univesity).

For the sake of development of agriculture, new agricultural technology becomes relevant and necessary involving a host of factors such as easy and timely availability of the infrastructural support in the shape of input supplies, credit and finance, transport and storage as also price supports in developing countries. The solution of the problems of poverty, unemployment and low productivity in developing and backward countries, no doubt needs transfer of technology besides the Governmental welfare measures. In case of India, by and large, the collaborations have not unduly restricted exports or proved harmful to development of indigenous technology. Actually they have helped to solve problems and spread the technological scope. Upgradation of technology in a host of items such as steel castings, diesel engines, protective relays and in industries like automotive and alloy, iron castings, X-ray equipment, computers, electronic and electrical equipment, ceramic and pharmaceuticals as well as coal mining often need foreign collaborations not only in India but in all developing countries. The ability to apply high technology will create wider opportunities in the field of transportation and aerospace manufacturing according to Warren E. Kraemer.[5]

The sector of space research and remote sensing is being coverd by the German Aerospace Research and Training Institute and the Indian Space Research Organisation. Co-operation in the field of peaceful uses of nuclear energy is being carried out jointly by the Juelich Nuclear Research Establishment and the Bhabha Atomic Research Centre. An Indo-German 10 KW Solar Plant at the Indian Institute of Technology in Madras is on a trial basis. Another Indo-FRG Project at research and development stage are at the water pumps operated by solar energy at the HEL, Hyderabad. In these two, Indian know-how and West German technology are being utilised in mutual collaboration. India has emerged as a supplier of sophisticated technical know-how to Gulf countries as well as African countries. There is a great demand for Indian doctors, engineers and other technical personnel in West Asian countries to help them in setting up business complexes.

During the last five years, total machine tool exports have gone up from Rs. 5 crores to Rs. 25 crores indicating Indian technological competence. The Public Sector Unit HMT has concluded a Joint Sector Project in Kenya and another one in Nigeria. The Indian entrepreneurs have established Joint industrial ventures recently in Latin American countries, Ethiopia, Mauritius, Nigeria and Uganda. About eight turnkey projects have already been completed in African countries.[6] The work going on in the Central Arid Zone Research Centre and the International Crop Research Institute for Semi-arid Tropics has been of considerable importance. India has acquired sufficient expertise in fuel oil based fertilizer technology. National Fertilizer Ltd., a public sector undertaking will soon be entering into an agreement with Brazil and Portugal for providing the necessary trained man-power for running fertilizer plants in those countries. West Germany is the pioneer in full oil technology but India has outdone her by evolving a better technology.[7]

The Intensive Extension Technology pioneered by Daniel Benor was successfully tried in Seyhan Project in Turkey and North Irrigation Project in Thailand. In July 1970 the Government of India issued a list of 121 items in which foreign collaboration was to be permitted for bridging technological gaps. For the development of indigeous technology, the policy has become more selective and financial participation has been brought down to 40 per cent. Technological collaboration agreements in India as a matter of policy, are to be permitted only in those areas where indigenous technology cannot be available. In recent years, about 250 collaboration agreements have been concluded. Over 60 per cent of all collaboration agreements are in the engineering and electrical equipment sectors and 11 per cent in chemicals.[8] India, with the help of foreign collaboration, has derived immense benefit from internationally known organisations such as Guest Keen, Williams, Crompton, Leyland, Enfield, Sandoz, Fiat, Ceat, Union Darbide and Park Davis.

In the process of global technological development, automation and mechanisation requiring precision are however opposed in developing countries on the ground that they lead to unemployment replacing men with machines. With the passage of time innovation grows more difficult, more expensive to accomplish, more time consuming to introduce and more risky to invest particularly in autombile industry.

The introduction of a radically new technology is said to be always upsetting. The builders of a new military aircraft have no hesitancy about investing in a new technology as regards cost of production is concerned. But the designers of a product to be sold in the open market have to balance several economic factors like choice of customers, cost of manufactures, availability of raw material and lastly the entire problems of marketing.

Another thing leading to high development cost is the speed at which the technology is advancing in the world, leading to rapid obsolescence. The system which is in operation today is very likely to be out of date in one or two years. That which is good enough today is completely unacceptable tomorrow. In many cases, the borrowed or bought technology from overseas manufacturers has become obsolete. The life of such technologies even in developing countries has been rated at 5 to 10 years though our industry in the country has imported these technologies taking into consideration their permanent or long lived applicabilities. Naturally then these technologies will effect our future industrial development as well as employment level seriously.

Yet another serious problem for technological progress in developing countries is that the management feels that nothing better need to be done as the existing set up of things are sufficiently good. In this regard Professor Balwin and Heier hold that "the fundamental problem is likely to be not how much economic change the economy can absorb, but rather how much cultural change the people can accept and how quickly in the field of technological advance specially."

The introduction of modern technology based on its import or export—has a serious shortcoming for an industrially less developed nation where comparatively less sophisticated personnel are employed. Personnel not used to electronic gadgets, find it difficult to adopt new methods founded on advanced technology in advanced countries. One of the hazards is the perceptible slow down in the rate of investment in the high technology meant for machine tools industry in the private sector. At present imported technology in this industry in India accounts for only 30 per cent of the output as against 80 per cent a decade ago. According to the Indian Machine Tools Manufacturers' Association, the research and development expenditure of its 29-member units amounted to Rs. 4 crores only last year. The technical decision has given birth to some sectoral relations which make the gap wider not only between the developed and developing countries but also between the urban and rural population simply because technology has brough out development internationally irrespective of the relevance of socio-economic set up in an economy.

It is imperative that managements should know their people and anticipate their reaction to a newly imported technology. The management has to trust the knowledgeable people a lot with communication between what the company is trying to do and what technology is needed to do the job. Training has to be imparted also to combat continuing obsolescence of personnel since what is modern today ceases to be modern tomorrow. An organisation to be really creative in the field of technological development, must give decision centres more alternatives. The research centres "must be allowed a great many alternatives, even if the uncertainties bring executive headaches."[9]

In order to establish direct linkage between the research and technological development of the developed and developing contries, the scientific and technological journals and books should internationally be made available without any obstructing barriers. Technology transfer should not be motivated by any ideology. Technologists shold not be subservient to the state authority. Mr. Gunnar Myrdal, in "Asian Drama", has rightly pointed out that the large volume of unutilised labour has a productive potential capable of creating capital and increasing production, thereby making possible higher level of consumption."[10] In the Indian context, it is of the utmost importance for the technologists to utilise such technologies either indigenous or imported that are labour-ineentive and capital-saving in view of the vast labour surplus in the shape of unemployment or under-employment.

Long-term financing is a major trouble for technological progress in the industry like medical or pharmaceutical industry as opposed to the consumer industry and as such one has to find much longer financial commitments than the consumer oriented industry needs. Against this background, the Governments and transnationals all over the world should make their avowed efforts to bridge over the financial gap.

Trade is an important vehicle of transfer of technology embodied in goods and services. The policy of the Government of India in science and technology aims at making a thrust at taking them to the micro-level. It aims at providing the right energy matrix for the rural areas and a mix of renewable sources of energy e.g., the sun, water, wind, tides and biomass. This is an area in which India expects to be a pioneer in the world. In the case of India, a more liberal policy towards the import of technology with a certain degree of reservation is necessary because India has reached a stage when she herself is going out in a big way to set up joint ventures in the third countries and is emerging as an exporter of software. It is essential that technological base in the country is strengthened, widened and updated through various measures including even import of technology.

REFERENCES

1. Dilemma of Technology Transfer, Bipin Bihar, Deputy Secretary, U.P.S.C., Yojana, January 26, 1980, Planning Commission, Yojana Bhavan, New Delhi, p. 38.

2. Op. cit., p. 39.

3. Dealing with Technological Change (A New Process Creates an Industry), Michael Wolff, Princeton Philadelphia, New York, p. 144.

4. Bringing Technology into Biomedicine, James F. Dicksom III, Princeton Philadelphia, New York, p. 157.

5. The High Technology Trap: Too Much, Too soon, Warren E. Kraemer, p. 31.

6. Technology Transfer, Priya V. Mutalik-Desai, The Economic Times, Calcutta, October 31, 1979, pp. 5-7.

7. India in Forefront of Oil based Technology, The Economic Times, Calcutta, April 14, 1981, p. 5.

8. Technology and Development, Sampath S. Iyenger, Indian Economic Conference, December 1978, p. 7.

9. The Power of Uncertainty in Organisations, Myron Tribus, Princeton Philadelphia, New York, p. 199.

10. Gunnar Myrdal, 'Asian Drama'- An Inquiry into the Poverty of Nations, Vol. I, Technological Reforms, Penguin Books Ltd., Harmondsworth, Middlesex, England, pp. 1261-1275.

SUPPORTING REFERENCES

11. Intensive Extension: A New Approach to Agricultural technology, A. K. Sinha, Yojana, December 1, 1978, p. 23.

12. Science and Technology for Development, Sudhir Sen, Eastern Economist, October 19, 1979.

13. Import of Capital and Technology — A Study of Foreign Collaboration in India, K. K. Sumbramaniam, Peoples Publication House, 1972.

14. Reserve Bank of India, Foreign Collaboration in Indian Industry, Survey Report, 1968 and 1974.

15. Technology for Development, P. Arumukhan, Khadi Gramodyog, Vol. XXIV, No. 5. February 1978.

16. Transfer Technology for Rural Development, D. P. Nayar, Yojana, Vol. XII/14 & 15, August 15, 1978.

Subscribe to :

SOUTHERN ECONOMIST

106-108, Infantry Road,

Bangalore-560 001

Subscription Rate :

Rs. 50 per annum

(*Foreign :* 15 Dollars)

surface mail

Chore Panel's Proposals—Need for Rethinking

By **K. Viyyanna Rao**[*] *and* **G. Prasad**[**]

Like the Tandon Committee that preceded it, the Chore Working Group has stirred a hornests' nest by recommending some major changes in the methods of lending by commercial banks to the traditional borrowers — primarily industry. In this article, the authors critically examine the proposals of the Chore Committee — particularly those relating to changes in the cash-credit system and caution against any major deviation from the existing practices.

TO frame guidelines for follow-up of bank credit, the Reserve Bank of India appointed a Study Group with Mr. Prakash Tandon as the Chairman in July 1974. The report submitted by this committee remained a landmark in the history of financing of working capital by commercial banks in India. The Committee, taking a pragmatic view of the situation prevailing then, made several important recommendations including the fixation of norms for the maintenance of inventory and receivables, determination of maximum permissible bank borrowings, changes in the style of lending and stipulation of quarterly reporting forms for following up of bank credit.

In order to excercise continued restraint on the further expansion of credit to industry, the Reserve Bank of India again constituted in March 1979 a small Working Group under the chairmanship of Mr. K. B. Chore. The Group had been asked to review the working of the cash-credit system in recent years with particular reference to the gap between the sanctioned limits and the extent of their utilisation. The Study Group had also been asked to suggest modifications in the existing system to make it more amenable to rational management of funds by the commercial banks or alternative type of credit facilities which ensure greater credit discipline. Thus, the primary aim of setting up of this Committee is to look into the operation of the cash-credit system and to find alternative ways of controlling the flow of bank credit to industry, particularly to the medium and large borrowers, in order to establish a link between output and credit needs.

After a thorough probe into the method, approach and style of lending to medium and large borrowers the Committee found there was a substantial gap between the sanctioned limits of cash credit and the extent of their utilisation. However, it would not have become possible for the study Group to identify whether, in cases where the gap had been utilised, there had been any deliberate attempt at pre-emption of credit. Though the gap was substantial and the possibility of its misuse during the period of credit restraint could not be ruled out, there was no empirical evidence available for the Panel to show that the gap was so misused. As a matter of fact, the unused gap in public sector units was much more than that in the private sector. Further, after analysing the advantages and disadvantages of the different systems of lending, viz., cash credit, loans, and bills, the Committee found that no system was superior to the other.

In the light of these findings, the Committee recommended various measures, including changes in the style of credit, strict implementation of quarterly reporting forms, fixation of separate limits for peak level and non-peak level, consideration of *ad hoc* or temporary accomodation in excess of the sanctioned limits, putting the big borrowers under the Second Method of lending of the Tandon Committee, encouragement of bill finance by discounting of drawee bills, etc., to streamline the bank credit for meeting the working capital requirements of industry. The Reserve Bank of India, accepting the recommendations of the Chore Proposals, except a few stringent clauses, asked the commercial banks to go ahead with them without any delay.

Following this decision of the Reserve Bank, there was much uproar has sprung in the industry and in the banking circles over the repurcussions of the measures proposed to be implemented. Many seminars and discussions were held on the subject and the trade and industry associations have been requesting the government to take a second look at the recommedations of the Chore Committee. In fact, recommendations of the Chore Committee though appear to suggest only modest changes in the current pattern, in reality, the effects of the proposals, particularly those relating to the cash-credit system and the Tandon Committee's second method of lending will have far-reaching impact on the growth and working of industry. In this context, and attempt has been made in this paper to discuss various implications of the Chore Panel proposals and identify the measures to be initiated by the government before the implementation of the Committee's recommendations.

System of Lending : Generally, working capital requirements of the industry are met by commercial banks through cash-credits, loans and bills. All these three methods of lending are prevalent in different parts of the world under different names. In India, till now, the financing of working capital by commercial banks was mainly done through the system of cash-credit. This system of lending was favoured by banks and borrowers in preference to others. primarily due to its flexibility and operational convenience. The borrower under this system is free to withdraw the funds at any time as required by him within the sanctioned limits, while he is also free to reduce his indebtedness and interest charges by depositing the cash accruals in his account. Unlike the other systems of lending, credit limits are fixed once in a year and the borrower is not required to present his case often times in a single year in the cash-credit system. The fact that the customers are well accustomed to it is another reason for its continuing importance till today.

---

[*] Mr. K. Viyyanna Rao is Lecturer, Department of Commerce and Business Administration, Nagarjuna University, Nagarjuna Nagar-522 510.

[**] Dr. G. Prasad is Lecturer, Department of Commerce and Business Administration, Nagarjuna University, Nagarjuna Nagar–522 510.

Nevertheless, this system has been criticised by Dahejia Committee and Tandon Committee because it permits the borrower to draw funds whenever these are required by him within the sanctioned limits and therefore, does not encourage the borrower to manage his cash resources properly. The limits fixed for borrowers being on an annual basis, are generally much large than required for the most part of the year, thus permitting borrowers to monetise the unutilised gap in times of credit restraint. The system does not encourage efficiency because drawals are linked to inventories and receivables irrespective of their justification.

Though the Chore Committee was unable to come to any conclusion on the advantages and disadvantages of different systems of lending, it favoured a gradual shift from the use of cash-credit to the loan and bill system. The Committee observes that "The advantages of the existing system of extending credit by a combination of the three types of lending, v.z., cash-credit, loan and bill should be retained. At the same time, it is necessary to give some directional changes to ensure that wherever possible, the use of cash-credit would be supplanted by loans and bills. It would also be necessary to introduce necessary corrective measures to remove the impediments in the use of bill system of finance and also to remove the drawbacks observed in the cash-credit system".

But the point here is whether the loan or bill system have such an overwhelming advantages that it is worthwhile nevertheless to shift from the cash-credit system to those which the working Group has suggested. In fact, the main disadvantage of the loan system is its inflexibility which tends to dilute its advantages. Firms prefer to negotiate large loans than they need. While in the cash-credit system any excess cash available is used to reduce the indebtedness to the bank, in the loan system it cannot be used in this way.

Use of Bill System : Coming to the method of financing working capital through the bill system, the committe recommends the review of all accounts by the banks wherein advances against book debts by way of cash-credit have been extended and to convert such limits into bill limits. Recognising the need to make a definite beginning to move towards the bill system of financing purchase of raw material inventory, the Study Group recommends that banks should hereafter extend at least 50 per cent of the cash-credit limit against raw materials to manufacturing units whether they are in public sector or private sector by way of drawee bills only. However, it can be said that this recommendation does not taken into consideration the stark realities.

Besides its own operational problems, the bill market system in the country is in a low key for several reasons such as the misuse of the system, inadequate availability of stamp papers in suitable denominations, abscence of secondary market for bills, reluctance of the government departments to accept bills, etc. It is perhaps for these practical difficulties the Tandon Committee after analysing the merits and demerits of the bill system, left to the discretion of the banks to implement this bill system in consultation with the borrower. Therefore, the gradual shift of cash-credit system to that of bill system is possible only when steps are taken to create market for bills in India. The Committee has done well in recommending the setting up a Discount House with branches initially at important commercial centres like Bombay, Calutta, Madras, Delhi, and Bangalore. We hope that the government and Reserve Bank will respond favourably in constituting the Discount House in the near future.

Credit Discipline : The Working Group seekes to inculcate better discipline and planning consciousness among borrowers by requiring them to submit quarterly projections of cash-credit limits. The Group recommends that the banks, while assessing the credit requirements of borrowers, should appraise and fix separate limits for the 'normal non-peak level' as also for the 'peak level' credit requirements indicating also the periods during which the separate limits would be utilised by the borrower. The banks should ask the borrower to give his quarterly requirements of funds before the commencement of the quarter on the basis of his budget, the actual requirement being within the sanctioned limit for the particular peak level/non-peak level periods. Drawings less than or in excess of the operative limit so fixed (with a tolerance of 10 per cent either way) but not exceeding sanctioned limit should be subjected to a penalty to be fixed by the Reserve Bank from time to time.

No doubt, these recommendations may bring the required credit discipline among borrowers and may enable the banks to effectively plan their lending activities. However, the success of these measures for bringing the credit discipline depends very much on the meaningful dialogue that the bankers will have with their medium and large borrowers and the extent of cooperation expected to be forthcoming from the latter.

Second Method of Lending: The over-dependence on bank credit by medium and large borrowers is sought to be reduced by requiring them to enhance their contribution towards working capital. For this purpose, in assessing the maximum permissible bank finance, banks would hereafter adopt the Second Method of lending recommended by the Tandon Committee, according to which the borrower's contribution from owned funds and term finance to meet the working capital requirements should be equal to at least 25 per cent of the total current assets. This would give a minimum current ratio of 1.33:1. In cases where the borrower may not be in a position to comply with this requirement immediately, the excess borrowings should be segregated and treated as a working capital term loan (WCTL) which could be made repayable in half-years instalments within a definite period, which would not exceed 5 years in any case.

The working capital term loan should carry a rate of interest, which should, in no case, be less than the rate sanctioned for the relative cash-credit limit and banks may, in their discretion, with a view to encouraging any early liquidation of WCTL, charge a higher rate of interest, not of course exceeding the ceiling. In addition, suitable provision should be made for charging of penal rate of interest in the event of any defaults in the timely repayment of WCTL.

The main effect of this recommendation is to reduce the extent to which large and medium borrowers can rely on the banking system to meet their working capital requirements, or what comes to the same thing, to require firms to obtain a larger contribution to their working capital requirements from long-term sources, i. e.. from owned funds and term borrowings. But the pertinent qnestion here is : Is the industry capable of obtaining more funds from these sources for financing working capital ? In other words, will the change from bank credit to internal and long-term sources be smooth-sailing ?

Consequent upon the implementation af the Tandon Committee's Formula-I by the commercial banks, industry is finding it difficult to secure funds from long-term sources to finance its working capital needs as desired by the Study Group. At this juncture, if the Second Method of lending is implemented, the situation will only be further aggravated. It is unfortunate, that the Chore Committee has suggested the shift to Second Method without assessing the impact of the operation of the First Method on the industry since its implementation.

Under the Second Method of lending, borrowers are required to contribute at least 25 per cent of total current assets, which would give a current ratio of 1.33;1. This is to be financed by the boorowers from out of their internally generated funds and or external borrowings like shares, debentures and public deposits. But the problem here is that the industry at present is not in a position to secure funds from these sources as desired by the Working Group. In fact, there are a host of hurdles in the mobilisation of funds from these sources.

The internal generation of funds which arises mainly from depreciation and retained earnings has serious limitations like the provision of depreciation on historical cost basis, price controls, high incidence of corporate taxation and rasing cost of production due to persistent inflation. Added to these are the high interest rates, restrictions on the growth of MRTP and FERA companies, under utilisation of capacity, infrastrctural bottlenecks and administrative delays. The combined eifect of these factors is the low profitability of the undertakings, thereby limiting the contribution of internal sources.

Industry, on the other hand. is also facing difficulties in raising finance from external sources owing to low returns to investors when compared to other long-term investments, restrictions on the acceptance of public deposits and competition from various institutional agencies including banks, the LIC, the GIC, the UTI and other government underkings. Further, it is becoming difficult for the companies to secure funds from special financial institutions, since those institutions are facing funds constraint and are unable to finance even full fixed capital requirements of companies through long-term loans.

In these circumstances, implementation of the recommendations of the Chore Panel, particularly the Tandon Committee's Second Method of lending, is likely to create acute difficulties for business and industry although, admittedly, the Group has made reasonable proposals for transitional arrangements for firms that will be immediatelly affected through working capital term loans. Unless certain corrective measures are taken, this recommendation will have an adverse impact on the growth and working of industry. Therefore. the government, before the implementation of this recommendation, should take all measures that enable the firms to generate and raise internal and external resources for meeting 'core portion' of working capital needs.

Conclusion: Thus, the implementation of the recommendation of the Chore Panel will have far-reaching impact on the industry. The gradual shift of cash-credit to the other methods of lending, though feasible, may not be possible at the present juncture, unless measures are taken to develop the bill market in India by constituting the Discount House as was envisaged by the Working Group. However the shift to the loan system is not desirable due to its inflexibility of the system and the preference of the borrowers to negotiate larger loans than they needed to avoid inconveniences. The Tandon Committee's Second Metod of lending, if implemented, will create acute difficuities for the industry in raising finance form internal and external sources. Hence, the government should, instead of hastily implementing the Chore recommendations, take measures to enable industry to increase its internal resources and raise funds from external sources.

Industry, on the other hand, should change the traditional ways of managing the diverse sources and uses of working capital, since credit is becoming scarce and costlier. Further, in the light of the Committee's recommendations on the system of cash-credit and with today's high interest rates and inflation, there is an urgent need to streamline the entire cash management function of the companies.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Sales Tax Versus Central Excise Duties

By **C. Dharmarajan** *

In the last issue, we published an article on the controversial subject of sales tax versus excise duty by the well-known economist, Dr. V.K.R.V. Rao. This article by Prof. C. Dharmarajan carries the debate further by pointing out that what is needed is not the substitution of one tax by the other but a prevention of the cascading effect of these taxes and a reduction in the overall tax burden. The inflationary impact of these taxes need to be looked into.

ARE the States happy over the existing financial arrangements between the Centre and the States? This question, if not asked every now and then, is put at least once a year. According to Mrs. Jothi Venkatachellum, the Governor of Kerala, instead of a more harmonious relationship being established between the Centre and the States, there have been many acts of encroachment on the States' powers and of discrimination against the State Governments led by parties other than the ruling party at the Centre. In the opinion of the Tamil Nadu Chief Minister, the federal character of the Constitution had been significantly eroded in the past 30 years. This he contended was brought about by centralisation of economic administration with the process of centralised planning and concentration of financial powers in the hands of the Centre.

The main issue is regarding the latest move initiated by the Centre to levy Sales Tax in respect of certain commodities substituting them with additional excise duties. The National Development Council, in December 1956, decided that additional duties of excise were to be levied on mill-made textiles, sugar and tobacco, including manufactured tobacco, in lieu of sales taxes then levied by the State Governments. It was decided that the net proceeds would be distributed among the States, subject to the fact that the previous income of the States from the sales tax on these goods was assured to them. The principle of distribution had to be determined by the independent finance commissions. So, on May 22 1957, the Government of India referred the matter to the Second Finance Commission asking it to make recommendations "as to the principles which should govern the distribution of the net proceeds of this additional duty among the States and the amounts which should be assured to the States as the income now derived by them from the levy of the sales tax from these commodities". In order to make the States amenable to the scheme, the three commodities were designated to be the declared goods. Three years later, a meeting of the State Ministers was held in New Delhi on July 29, 1960 to consider the extension of additional duties of excise on silk fabrics, match, paper and vegetable products. Agreement could be reached only in regard to silk fabrics. With the imposition of additional excise duty on silk fabrics, this commodity also was put in the category of declared goods.

The criticisms against the scheme of additional excise duties can be grouped under two categories. One category of arguments relate to the manner of its operation during the past decade. The other category raises the more fundamental question in federal finance. It aims at scrapping the scheme all together. Let us examine the first category of arguments. First, the terms of reference have made it clear for all the Finance Commissions that the share accruing to each State shall not be less than the revenue realised by that State in the year 1956-57 from the levy of the sales tax on the commodities which are present under the purview of the additional duties of excise. It has been felt that, the assurance of the guaranteed amounts is an indirect recognition of the logic that in the distribution of the net proceeds, the accent should be on compensating each State for the loss that it has suffered in its revenue by surrendering its right to levy sales tax on certain commodities".

So the distribution must be so done that each State gets the same amount as it would have got, had the sales taxes on these goods been there. It is rightly believed that considerations, such as needs of the States, relative economic backwardness and population have no bearing on the distribution of the proceeds from these additional duties. It has been, therefore, the first concern of all the Finance Commissions to set apart the guaranteed sums to the States and then proceed to devise ways of distributing the balance.

The Second Finance Commission adopted an arduous process to arrive at the yield of sales taxes for the year 1956-57. It tapped different reliable sources for getting relevant material.

The States expressed misgivings regarding the bases on which the Commission had calculated the guaranteed sums but they could not be able to supply more reliable data. Further, the States wanted a liberal interpretation of the guaranteed income for 1956-57 by including prospective revenue likely to result from increases of rates for which laws had been made or would likely to be made in the near future. Some States also wanted that due allowance should be given to the loss suffered by tax evasion and for the amounts that could have been got through improvement in the administration. Such proposals were rejected by the Commission, because of their arbitrary nature. The States tried to open this issue *de novo* before the third Commission, but to no avail. The Fourth and the Fifth Commissions have taken these estimates as granted. In course of time, this nearly became a dead issue.

The second criticism levelled against the operation of the scheme by the States is that whereas between 1957-1969, the rates of basic duties of excise on some of the items within the scheme have been raised and special duties of excise on tobacco introduced, the rates of additional duties of excise have been left where they were. If the States have power, they would have raised rates of sales taxes on these items. It is found that revenue from basic and special excise duties from these commodities has increased by 70 per cent between 1958-68. During the same period, revenue from the additional excise duties has gone up only by 45 per cent. The States have demanded that the rates of additional excise duties should be directly linked to the rates of basic and special excise duties in order to give them the benefit of increased revenue. This neither possible nor desirable, because the Central Government is largely guided by the considerations of economic and fiscal policy. The States Sales Taxes are regulated mainly for the purpose of revenue. Excises on sugar and textiles have been regulated from time to time for purposes other than revenue.

---

* Prof. C. Dharmarajan is Head of the Department of Economics, Arignar Anna College, Aramboly-629 301 (Kanya Kumari Dist.)

Sometimes, downward adjustments in rates have been effected. The States clearly will not agree to similar adjustments in case of the additional excise duties. Yet, it can be said that the Centre should not have neglected the possibility of enhancing the rates on additional excise duties. The argument is reinforced by a further consideration. In some States the rates of Sales Taxes on similar commodities are higher than the rates of additional excise duties. The States feel that they have been robbed of additional revenue by surrendering their rights to the centre. There is also considerable strength in the argument, when the States allege that most of the additional excise duties unlike Sales taxes are specific and hence, are not price elastic in nature. Rates are not revised to keep pace with price movements. Consequently, the States lose some revenve. On account of these, many State Governments press for the abrogation of the scheme of additional excise duties. Some saner and moderate elements want the same thing for other reasons. They want to preserve the States' autonomy and mobilise finance according to their own requirements.

The recent Chief Minister's conference decided to levy additional excise duty on vanaspati, cement, drugs and medicines, petroleum products, paper and paper products. This naturally annoyed some States as is evident from the Kerala Governor's statement that the Central Government has initiated a move for reducing the powers of the State Governments this way and at the same time, they are asking the States to raise more and more finances for the plans. What the former Chief Minister of Kerala, Mr. E. K. Nayanar observed was the fact that the present proposals went far beyond what was originally proposed. The original proposal was to include vanaspati and life-saving drugs in the list of excise duty items from the Sales Tax. Now more goods are being added to it. According to the Chief Minister of Tamil Nadu, revenues from additional excise duties had tended to remain frozen while the basic and special excise duties had detained their elasticity.

These States are of the view that acceptance of the Government of India's proposal would mean that they would lose effective control over a very big chunk of tax revenue. They would lose a definite level at the disposal of the State Government in regard to resource mobilisation and would have to depend on some formula devised from time to time by the various Finance Commissions. To bring about any control on the powers of the State to levy tax on the above commodities according to them would amount to an unnecessary intrusion into the powers of taxation guarenteed py the constitution resulting in serious shrinkage of the limited financial resources available to them and they would also be reduced to the status of local bodies or mere administrative units of the Government of India.

As things stand today, not only have the States to look up to the Centre for funds needed for essential developmental activities but they have to submit to cumbersome checks and scrutiny of their plan schemes. In some cases, the schemes evolved by the Central agencies do not have much relevance to the conditions prevailing in—and the needs of—different States. Many a time, this results in distorting the priorities of development of a State. According to the Jammu and Kashmir Finance and Planning Minister, the Centre had not fulfilled the past assurance of raising the additional excise duty commensurately with the growth of Sales Tax collections in the States. He suggested that the issue might be remitted to the Eighth Finance Commission and objected to taking any decision in haste in this regard as the matter is pending befor the Supreme Court. It is heartening to note that the Union Finance Minister R. Venkataraman in the end had to concede the demand of Karnataka to refer this question to an expert committee. The Karnataka Finance Minister argued that this matter should be examined by a panel of experts as the proposal would adversely affect resources mobilisation by the States. According to him, Karnataka would be losing Rs. 25 crores to 30 crores if the proposed system is brought into force.

The main consideration for the Centre to replace Sales Tax by additional Excise duty is that this would help prevent tax evasion apart from being convenient to trade and industry. In fact, the imposition of varying rates of Sales Tax by the States has frustrated the efforts of the Central Government to maintain uniform prices for certain essential products all over the country.

However, the remedy does not lie in the wholesale abolition of The Sales Tax and its replacement by Excise Duty. In fact, both the levies are responsible for the high cost economy in the country. For instance the Sales Tax is levied on the price of products which has already been pushed up by the excise duties on them as well as on inputs that have gone into them. This phenomenon of cascading of texes is really an important reason for the high cost economy this poor country is saddled with. Under the circumstances, what is required is rationalisation of the administration of excise and sales tax systems and also simplification of their procedures. The public is concerned more with the aggregate tax burnden on them than with who levies the tax.

Deployment of Surplus Resources by Co-op. Banks: Study Group's Findings

THE long-term remedy to the problem of surplus resources faced by co-operative banks lies in accelerating the growth of their loans and advances. This is the main conclusion reached by the Study Group * on deployment of surplus resources by co-operative banks (Chairman: Dr. M.V. Hate, Executive Director, Reserve Bank) in its report submitted to the Reserve Bank. The urban co-operative banks, it is pointed out, should develop their loan business for which there is abundant scope.

The Study Group has defined the surplus resources as the excess of loanable internal resources over the total outstanding loans and advances. The central co-operative banks (CCBs) and the urban co-operative banks (UCBs) particularly in the States of Maharashtra and Gujarat have been keeping their surplus funds largely with commercial banks in call and fixed deposits, since they are able to get higher rates of interest from commercial banks on such inter-bank deposits. Some CCBs have also kept their surplus funds with certain non-banking co-operative institutions.

The Study Group has estimated the aggregate surplus resources of co-operative banks at Rs. 540 crores (inclusive of the surplus funds invested by them with commercial banks and with institutions other than the higher financing agencies), of which Rs. 108 crores are estimated to be of a long-term nature. Of the total surplus resources, as much as Rs. 348 crores, forming 64 per cent of the total, are accounted for by Maharashtra alone, followed by Gujarat where the surplus resources are put at Rs. 89 crores forming 16 per cent of the total surplus resources. Thus, the two States of Maharashtra and Gujarat together account for almost 80 per cent of the total surplus resources in the entire co-operative banking sector.

The problem of surplus resources of cooperative banks, according to the Study Group, may have to be viewed in its proper perspective. First, the surpluses are due to the under-development of co-operative infrastructure. Secondly, these are not general to the co-operative banking sector as a whole but are region-specific and/or institution-specific. Thirdly, though the surpluses are sizeable, the magnitude of surpluses is not such as to cause 'alarm'. Fourthly, the two categories of surplusus, namely, long-term and seasonal, would need to be tackled separately. In the case of the former, longer medium-term investment avenues need to be found, while in the case of the latter the problem is essentially one of 'parking' funds in short-term avenues which would be co-terminous with the surpluses.

The Study Group has also recognised that several State Co-operative Banks and CCBs, more so the SCBs, are faced with the problem of profitable investment of their loanable internal resources, since their lending rates on agricultural advances, which are concessional, are uneconomic compared to the cost of raising deposit resources. It has, therefore, suggested that break-even proportions of concessional and non-concessional lendings may have to be worked out in the case of each bank on the basis of percentage loss incurred on concessional lendings and interest margin earned on non-concessional lending and, in cases where any SCB or CCB has not reached the break-even percentage in respect of non-concessional lendings, the Reserve Bank may take a sympathetic view while considering the proposals of such banks for financing the non-agricultural sector so as to enable them to reach the break-even percentages.

The Study Group has cautioned that, since the problem of surplus resources is a temporary phenomenon and since the bulk of the surplus resources is of a seasonal nature, it would not be desirable to take any negative steps which would result in retarding the growth of deposits, particularly when there is vast scope for developmental lending and there is overall resource constraint for meeting the financial requirements of the various development programmes already undertaken/proposed to be undertaken in the country.

While urging the UCBs to develop their loan business, the Study Group has underlined the need for CCBs to give top priority for expansion of loans and advances for agriculture and allied purposes by taking the several measures suggested by various committees from time to time for removing the several factors inhibiting the growth of such advances. These measures include, among others, a speedy reorganisation of primary

---

* The Study Group was constituted by the Reserve Bank in March 1981 to make an in-depth study of the problem of surplus resources and profitable investment of loanable internal resources faced by state and central co-operative banks and to make recommendations which would offer long-term solutions to the problem. Besides the Chairman, Dr. Hate, the Study Group included a representative each of the Planning Commission and the Ministry of Agriculture (Government of India), the chief executives of the National Federation of State Co-operative Banks and a few select state co-operative banks and two senior officers of the Reserve Bank from its Economic and Agricultural Credit Departments. The Group's Report is presently under the consideration of the Reserve Bank.

agricultural credit societies in states such as in Maharashtra where it has not been so far accomplished; eschewing the restrictive practices in lending on account of caste, factions, etc., implementation of the recommendations of the Study Team on overdues on a priority basis with a view to creating and sustaining a congenial atmosphere for prompt recovery on loans.

As these measures are likely to take some time to yield the desired results, the Study Group has identified several areas within the co-operative sector as well as outside the co-operative sector where the surplus resources could be profitability deployed for the time being. The several avenues within the co-operative sector recommended by the Study Group, in order of priority, are as under:

The co-operative institutions which are obtaining their financial requirements from commercial banks should be brought to the fold of co-operative banking sector.

In cases where the SCBs are providing working capital finance to the co-operative processing units in different parts of the state, the feasibility of transferring such accounts to the concerned CCBs may be explored.

The SCBs may, wherever feasible, form a consortium with CCBs having surplus resources, for financing the procurement operations of various commodities undertaken by state co-operative marketing federations and/or other co-operative organisations.

Financing of stocking and distribution of fertilisers by state co-operative marketing federations should be considered as the legitimate business of co-operative banks. The present consortium arrangements of commercial banks should, therefore, be gradually phased out and replaced by co-operative banks' consortia.

State land development banks should invariably approach the SCB of the state concerned for interim accommodation and only in cases and to the extent the SCB is not in a position to provide interim acommodation they should approach a commercial bank for the purpose.

Provision of working capital finance to national level institutions such as NAFED, NCCF and IFFCO, which are at present obtaining almost all their financial requirements from the commercial banks, may be taken over by SCBs by forming a consortium particularly of such of the SCBs which are facing the problem of surplus resources.

The CCBs may undertake provision of working capital finance to co-operatives in tribal areas engaged in the procurement of minor forest produce from the inhabitants of the area and supply of consumer articles to them.

Provision of bridge finance to the newly established co-operative processing units may be considered as the legitimate business of co-operative banks.

The SCBs and CCBs may be permitted to provide term loans to co-operative processing units in their area of operation for meeting the cost of expansion project/scheme provided the concerned unit is already working as a viable unit and the annual cash accruals will enable the repayment of term loan within a period of five years.

The SCBs/CCBs/UCBs having substantial long-term surplus resources may be permitted to provide block capital loans to the co-operative processing units/such as co-operative sugar factories and spinning mills in participation with term lending institutions on a consortium basis repayable within a period not exceeding seven years on such terms and conditions as may be envisaged by the Reserve Bank.

The Study Group has emphasised that the need for seeking investment avenues by SCBs and CCBs outside the co-operative fold should not normally arise, if there is a well developed infrastructural cooperative system in the state capable of absorbing credit. Since, however, it is not so in several states, avenues for investment outside the co-operative fold may be provided as a temporary measure and steps may be taken for developing the co-operative system itself to generate the necessary credit absorption capacity, so that the resources mobilised by co-operative credit institutions are utilised exclusively in financing the co-operatives. Keeping in view that the co-operative banks would have strictly to utilise their resources largely for bringing about the development of agriculture and allied activities and that of the rural sector, either directly or indirectly, the following avenues for investment of surplus resources by the co-operative banks outside the co-operative sector, in order of priority, have been recommended by the Study Group:

Extension to CCBs also of the facility of providing credit to public sector institutions, etc., closely connected with rural production, processing and marketing, presently available to SCBs.

Financing of fertiliser corporations/public sector fertiliser companies for their working capital requirements provided the distribution of fertilisers is entrusted by the corporation/company to the co-operatives.

Provision of term loans to dairy development corporations for setting up chilling/storage plants at convenient places near rural areas for collection of milk, repayable within five years.

Provision of term loans to state electricity boards in respect of their schemes for providing electric connections for energising pump-sets repayable within five years.

Financing of welfare corporations set up in various states for the uplift of weaker sections such as tribals, scheduled castes and scheduled tribes, repatriates, etc., for their working capital requirements.

Provision of term loans to transport corporations in the public sector repayable within five years for promoting public sector transport services in rural areas.

Provision of working capital finance to statutory corporations/bodies for undertaking distribution of essential, consumer articles provided the distribution is entrusted to the co-operatives.

Provision of term loans to housing development corporations for on-lending to co-operative housing societies engaged in the provision of housing facilities to weaker sections in backward areas, repayable within five years.

The Study Group has recommended that the total advances of a co-operative bank to individuals and institutions outside the co-operative fold should not exceed its aggregate deposit resources raised from sources other than co-operatives. However, in cases where the financial requirements of a borrowing unit cannot be accommodated singly by the SCB, it can enter into a consortium arrangement with the CCBs and/or UCBs.

The Study Group has made the following recommendations for improving the profitability of SCBs and CCBs:

While the rate of interest to be offered on deposits from co-operatives might be left to the discretion of co-operative banks, the SCBs may, like the Maharashtra SCB, forego the concession of granting ½ per cent additional interest.

The commercial banks might be prohibited from paying a rate of interest of over 10 per cent on deposits from co-operative banks/institutions with a view to ensuring that the co-operative sector's funds stay within the co-operative sector and thereby serve their legitimate purposes.

The proposal that for the profitable deployment of own resources the SCBs may be permitted to make larger investment in call/short-term deposits with commercial banks and that the Reserve Bank should prescribe a minimum level of its involvement in agricultural lendings at concessional rates have not been accepted by the Study Group, as this would mean permitting them to keep such deposits out of funds drawn from the Reserve Bank at concessional rates of interest. The proposal that the co-operative banks may be permitted to keep their surplus funds by way of deposits with statutory corporations such as agro-industries corporations, textile corporations and housing boards has also not been accepted by the Study Group.

The Study Group has examined the various existing provisions relating to the extent and manner of maintaining cash reserve and liquid assets by the co operative Banks. In regard to cash reserve and liquidity requirements, the Group has finally come to the view that, if excess liquidity becomes a persistent feature and not a temporary aberration from the trend, it may become necessary in the future to adjust reserve requirements. The Group recognised that the Reserve Bank keeps a continuing watch on the liquidity of the banking system, including co-operative banks, and that it would take appropriate measures from time to time. In regard to other issues also, the Group has recognised that the continuance of various concessions and relaxations initially granted to co-operative banks would be justified only so long as these banks live upto the expectations and discharge their expected role effectively so as to deserve these concessions and relaxations.

PERSONALITIES

S. G. RAMACHANDRA NEW CHAIRMAN OF IEMA

Mr. S. G. Ramachandra, Executive Vice President, Kirloskar Electric Co. Ltd., Bangalore has been unanimously elected the President of the Indian Electrical Manufacturers' Association for the coming year. He will take office in January next. Mr. Ramachandra has had a long career in the electrical industry and his unanimous choice is a recognition of his contribution to the industry. He is currently the President of the Institution of Engineers (India) and also the Chairman of the *ad hoc* committee for problems of energy in developing countries of the World Energy Conference, Chairman Electrotechnical Division of the Indian Standards Institution.

Mr. N. D. Prabhu (50), erstwhile Joint General Manager has been promoted as General Manager of Canara Bank. Born in Nileshwar, he joined the Bank in 1955 and served in various responsible capacities like Regional Manager, Divisional Manager, Deputy General Manager, Joint General Manager, before being Elevated to this position.

Mr. K. S. Kamath has been promoted as Joint General Manager of Canara Bank. He was heading the Bangalore South Circle as Deputy General Manager just prior to this promotion. Mr. Kamath, born in Coondapur of South Kanara District in 1923 had the initial grounding in Banking, in Agriculture and Industrial Bank Ltd., before joining Canara Bank in 1950. He had worked in several branches in various capacities before attaining the top position in the Bank. He had paritcipated in training programmes conducted by N.I.B.M., I.I.M., and College of Agricultural Banking.

Mr. G. P. Prabhu (54) has been promoted as Joint General Manager of Canara Bank. After joining the Bank in 1949 as an executive Trainee he has worked in various capacities in several branches and offices. He was heading Bombay Circle Office as Deputy General Manager since 1976.

Mr. Dhansukh Nanalal Shukla has been appointed Executive Director of Bank of India with effect from August 13, 1981. Mr. Shukla joined Bank of India Ltd. in 1949, after his graduation from the University of Bombay. After gaining initial branch experience in Ahmedabad, he was sent to the Bank's London Branch for training in 1954. Thereafter, for 14 years, he was in charge of the Bank's overseas establishments in East Africa. In 1969, he returned to India and held the positions of Regional Manager, Southern and Central Regions. In 1979 he was promoted as General Manager (Operations), a post he held till now.

Mr. S. Krishnaswami, Managing Director of the Associated Cement Companies Limited, was elected President of the Cement Manufacturers' Association. Mr. Krishnaswami is also President of the Cement Research Institute of India.

Mr. H. N. Rao who was the General Manager of Syndicate Bank, has been appointed as the Executive Director of the bank with effect from August 13, 1981. Mr. Rao, a doyen among the bankers in India, has been with the Bank for nearly four decades. The Syndicate Bank has created three more posts of General Managers in addition to the existing General Manager, Mr. A. Krishna Rao. The new incumbents are Mr. Miles Frances, Mr. P. S. V. Mallaya and Mr. K. Manmohan Shenoy.

Mr. M. B. Deshmukh, Managing Director, State Bank of Mysore, has been promoted as Deputy Managing Director, State Bank of India, Central Office, Bombay. with effect from November 5, 1981.

IMF SURVEY

Performance of Indian Economy

THE performance of the Indian Economy was excellent from 1975-76 through 1978-79. Real gross domestic product (GDP) grew robustly, averaging about 6 per cent annually, and inflation was remarkably low, with wholesale prices rising by only 2 per cent a year. Agriculture registered a strong expansion, with foodgrain production setting new records in three of the four years. This above-everage growth was the result of improved agricultural infrastructure and a more intensive use of inputs, as well as good *monsoons*. Industry also performed well, aided by improved power supplies and the increased availability of intermediate goods following a gradual liberalization of import restrictions. With a sharp rise in domestic incomes and remittances from abroad, gross domestic savings rose steadily as a result of buoyant private savings, reaching 24 per cent of GDP by 1978-79. As domestic savings exceeded investment, the current account shifted into a large surplus in 1976-77. The overall surplus averaged more than SDR 1.1 billion at the end of March 1975 to SDR 5.7 billion at the end of March 1979, the equivalent of 10.5 months' imports in 1978-79. With domestic supply growing rapidly, more expansionary domestic policies were adopted towards 1977-78, public investment was stepped up, and incentives for private investment were strengthened. With the rapid accumulation in foreign reserves, import restrictions were gradually liberalized, and major steps towards liberalization were taken in 1976-79.

India's remarkable economic growth during the four years, 1975-76 to 1978-79, was followed by a sharp deterioration in the terms of trade. Agriculture declined by 12 per cent, with foodgrain production suffering a turnaround after the record harvest of 1978-79. Industry was adversely affected by drought-induced infrastructure shortges, which were exacerbated by deteriorating labour relations, port congestion, and transportation bottlenecks. As a result, real GDP fell by 4.5 per cent, and the gross domestic savings rate declined by 2.7 per cent. Wholesale prices rose sharply, reflecting rapid increases in import prices, emerging shortages of essential consumer goods, and a substantial build up of liquidity during previous years.

In 1980-81, however, as domestic production rebounded, real growth reached 7 per cent. The agricultural sector recovered strongly, with foodgrain production slightly over the record 1978-79 level, and industry began to expend during the second half of the year as infrastructure bottlenecks gradually eased. Inflation remained high, although there were signs of a slowdown in the second half.

During 1979-80 to 1980-81, India's external payments position weakened rapidly after the marked improvement of the previous four years. This weekening reflected a deterioration in the terms of trade resulting from increases in oil prices in 1979-80. The impact of the adverse change in the terms of trade was exacerbated by a decline in domestic production, caused by the severe drought, and a stagnation in domestic crude oil production resulting from labour disorders in the north eastern oilfields in 1980 81. In these last two years, imports have risen rapidly, with oil import bills reaching about 45 per cent of total import payments and 80 per cent of export earnings by 1980-81. With exports expanding sluggishly, the current acount registered a deficit in 1979-80 after the surpluses of the previous three years, and the deficit widened sharply to SDR 2.6 billion in 1980-81. While remaining in surplus in 1979-80, the overall balance shifted to a deficit of SDR 0.7 billion in 1980-81, in spite of a substantial increase in aid disbursements, including an IMF Trust Fund loan of SDR 525 million.

While the effects of the drought and the disorders in the north-eastern oil-fields were transitory, the deterioration in the terms of trade had an adverse effect on the external payments position over the medium term. The current account deficit is estimated to widen progressively from SDR 2.6 billion, or 2 per cent of GDP, in 1980-81 to SDR 4.2 billion, or 2.2 per cent of GDP, by 1983-84. Notwithstanding an acceleration in aid disbursements, the overall deficit is projected to reach more than SDR 6 billion during the next three years.

INDIA: SELECTED ECONOMIC INDICATORS

(per cent)

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81[1]
Real Growth of						
GDP at factor cost	9.6	1.4	8.6	5.9	-4.5	7.0
Agriculture	12.0	-4.1	12.1	1.8	-11.8	14.0
Manufacturing	4.2	7.2	5.9	14.2	-1.9	3.1
Money[2]						
Broad money	14.5	22.4	20.6	21.2	17.3	18.2
Domestic credit	14.0	16.0	17.4	17.4	22.4	24.6
Credit to Government	6.1	9.0	22.2	14.3	25.0	34.2
Inflation[3]	-1.1	2.1	5.2	-	17.1	18.0
Ratios to GDP						
Gross domestic savings	20.6	22.9	21.6	23.9	21.2	23.7
Private savings	15.5	16.9	17.1	19.2	17.5	20.1
Gross capital formation	20,5	21.3	20.0	23.7	21.8	25.5

1. Provisional figures 2. End of period 3. Annual average rate of increase in the wholesale price index. Data : Indian

TAX DEDUCTION AT SOURCE IS OBLIGATORY

IF YOU are responsible for paying any

- SALARIES
- INTEREST exceeding Rs. 1,000 by credit or otherwise (other than interest on securities)
- AMOUNT TO A CONTRACTOR OR SUB-CONTRACTOR by credit or otherwise where the value of the contract exceeds Rs. 5000
- WINNINGS exceeding Rs. 1,000 FROM LOTTERIES OR CROSSWORD PUZZLES OR FROM HORSE RACING in excess of Rs. 2,500
- OTHER SUM TO A NON-RESIDENT (other than interest on securities or dividends).

You are liable :

* to deduct tax at the appropriate rate therefrom
* deposit the tax deducted to the credit of Government within the time allowed
* file the appropriate statement with your I.T.O. indicating the deduction made.

Meet your liability well in time
DEFAULT ATTRACTS PENALTY

For further details and guidance approach your I.T.O. or the P.R.O., in the office of the Commissioner of Income-tax

For attention of recepients

If you are in receipt of any income from the sources mentioned above and your total income justifies deduction of tax therefrom at a lower or NIL rate, you can approach your I.T.O. for a certificate showing such lower rate applicable to you and the person paying the income will then deduct tax only at that rate.

PAY TAXES RIGHT • BUILD NATIONS MIGHT

Director of Inspection
(Research, Statistics, & Public Relations)
Income-Tax Department, New Delhi-110 001

davp 81/182

Improved Performance by Bajaj Auto

BOTH the sales turnover and profit of Bajaj Auto Limited have shown a marked improvement during the year ended June 30, 1981. The company's sales, which stood at Rs. 49.41 crores in 1979-80, improved to Rs. 103.39 crores in 1980-81. Its gross profit rose from Rs. 12.13 crores to Rs. 21.09 crores while the profit before tax, statutory reserves and interest, improved from Rs. 10 crores to Rs. 15.69 croree. The after-tax profit, which stood at Rs. 3.60 crores, improved to Rs. 5.37 crores. The recommended equity dividend is Rs. 25 per share.

The year withnessed all-round improvement in production. The production of two-wheelers rose from 88,651 to 1.50 lakh vehicles while that of three-wheelers increased from 13,701 to 22,540. The figures for 1979-80 and 1980-81 are not strictly comparable in view of the 4-month strike in 1979-80. Expansion of the company's two-wheelers manufacturing capacity is almost complete. It is expected that the production rate of 2.50 lakh vehicles per year will be reached by January 1982. This will comprise: (a) Scooters 200,000, (b) Motorcycles 30,000; (c) Three-wheelers 20,000. The company commenced commercial manufacture of Bajaj m50 motorcycles during the year. The company proposes soon to apply for permission for substantial expansion of its two and three-wheeler manufacturing capacity by 3 lakh vehicles per year.

The company has further improved its performance in the field of exports. During the year under review, 40,107 scooters and 3,963 three-wheelers, mostly in the form of CKD packs, were exported, earning foreign exchange equivalent to Rs. 13.32 crores as against Rs. 10.22 crores in the previous year. The company received during the year foreign exchange equivalent to Rs. 51.09 lakhs as technical know-how fees from its licencees abroad. During 1980-81, 32,093 applications for release of 'Bajaj-Chetak' scooters were received under the scheme of priority allotment of scooters against inward remittance of foreign exchange. The foreign exchange thus earned amounted to Rs. 19.25 crores. The total foreign exchange earned by the company durlng the year under review therefore amounted to Rs. 33.08 crores.

DCM's Debenture Issue For Rs. 6 Crores

ON December 9, 1981, The Delhi Cloth Mills Company Limited will be entering the market with a public issue of 4.80 lakh secured convertible debentures of Rs. 125 each at par. In about an year and a half from the date of allotment, 20 per cent of the face value of each debenture can be converted into an equity share of 25 at par. The balance of Rs. 100 will be redeemed in four instalments between the 7th and the 10th year. Out of the public issue of Rs. 6 crores, one crore will be reserved for preferential allotment. In addition, a right issue of Rs. 9 crores will be made to the existing share holders. The debentures will carry an interest at 13½ per cent.

The company proposes to manufacture light commercial vehicles in collaboration with a leading firm of Japan. The company has already decided to invest Rs. 5 crores in the share capital of new company to be promoted for this purpose. The company has on the cards a programme for the setting up of a cement plant of 600 tonnes per day capacity based on by-product Calcium Hydroxide Sludge at Kota, doubling the capacity of Caustic Soda Plant at Kota expansion of distillery plant capacity from 68 kilo litres per day to 150 kilo litres per day, doubling the capacity of PVC plant at Kota, and expansion of the capacity for manufacture of sophisticated alloy iron castings by 50 per cent. In addition, the Company is planning for increasing the cane crushing capacity.

DCM has an excellent track record. In fact, out of the total paid-up capital of Rs. 21.35 crores, a total of Rs. 14.29 crores represents accumulated profit of the company capitalised and used for issue of bonus shares from time to time in the past 5 years. The growth of the company has been dramatic. Sales has increased from Rs. 211.37 crores in 1977 to Rs. 381.33 crores in 1981. The gross block during the same period have gone up from 116.97 to Rs. 170.01 crores. The gross profit has increased from Rs. 14.44 crores in 1977 to Rs. 24.05 crores in 1981. The free reserves of the company stand at Rs. 35.86 crores. With a number of projects involving a total capital outlay of over Rs. 90 crores slated for completion in the next few years, the profitability of the company is expected to increase substantially.

Spectacular Showing By Thermax Group

THE Thermax Group, which comprises Thermax Private Limited and Tulsi Fine Chemical Industries Private Limited is engaged in energy and enviornment related activity. Thermax is the first to introduce fully automated forced circulation packaged steam boilers in India. It has also pioneered the concept of liquid phase heating in the country. It is also the first to design a commercially feasible waste heat recovery system for diesel generating sets. In 1980, its turnover stood at Rs. 27.31 crores against Rs. 4 crores in 1975. The company's profit before tax, which stood at Rs. 25 lakhs in 1975, improved nearly five-fold to Rs. 1.13 crores. Its exports rose from Rs. one crore in 1975 to Rs. 2.4 crores in 1980. The company's net worth, which stood at Rs. 62 lakhs in 1975, has increased to Rs. 2.24 crores in 1980.

Improved Sales By Britannia Industries

Britannia Industries Limited has registered improved sales during the 15 months ended June 30, 1981. From Rs. 66.36 crores in 1979-80, (12 month period), the company's sales increased to Rs. 92.87 crores (15-month period) in 1980-81. However, profit before tax, which stood at Rs. 5.32 crores in 1979-80, declined to Rs. 4.25 crores in 1980-81. The profit after tax amounted to Rs. 2.23 crores in 1980-81 compared to Rs. 2.25 crores in the previous year. The equity dividend totals 19 per cent for the period under review. The company's exports were marginally higher, at Rs. 6.56 crores. The company has signed a technical collaboration agreement with Nebico Private Limited of Nepal for the manufacture of biscuits.

Mysore Kirloskar Records Better Performance

The sales (and other income) of the Mysore Kirlosker Limited have registered an improvement from Rs. 25.37 crores in 1979-80 to Rs. 32.22 crores in 1980-81 (year ended June 30). The improved sales are due to healthy domestic demand although the exports declined due to recessionary conditions abroad. Pre-tax profit was higher, at Rs. 2.03 crores, compared to Rs. 1.43 crores in the previous year. The after-tax profit also stood higher, at Rs. 75.23 lakhs, against Rs. 67.12 lakhs in 1979-80. The directors have recommended an equity dividend of 15 per cent. Subject to the consent of the authorities, they have also recommended the issuance of bonus shares in the ratio of 2:3 by capitalising Rs. 1.70 crores from the reserves.

Since there likely to be no power cut in 1981-82, the company may record better production than in 1980-81 when there was a severe power cut. The company is implementing replacement and modernisation programme at its factories at Harihar, Hubli and Sattur. A foreign currency loan of Rs. 410 lakhs by ICICI and a term loan of Rs. 80 lakhs by LIC have been sanctioned to finance a portion of costs of the programme. The working of the Subsidiary, Precision Tooling Systems Ltd., shows improvement. For the year ended December 31, 1980, a profit of Rs. 6.77 lakhs has been earned and a dividend of 13.5 per cent has been declard as against 10 per cent in the previous year.

1981-82 to be Better Year for Mukand Iron

Mukand Iron and Steel Works Limited is expected to show better results in 1981-82. As observed by Mr. Viren J. Shah, in his annual statement, the company's turnover is expected to cross Rs. 150 crores in 1981-82, aginst Rs. 110 crores in 1980-81. The company has envisaged a modernisation programme at an approximate cost of Rs. 20 crores. The programme will be completed in two phases. The first phase costing about Rs. 14 crores includes rehabilitation, modernisation of Bar mill, installation of Bloom Caster, Ladle refining station and other balacing equipment and is expected to be completed by the end of the year 1982-83. The second plase of the programme costing about Rs. 6 crores which consists of setting up of an Oxygen plant and other facilities is expected to be implemented in 1983-84. The company has applied for an industrial licence to manufacture sponge iron using non-coking coal. This captive plant with a capacity of 2 lakh tonnes per annum is proposed to be located in a backward district in Maharashtra. The company has also applied for substantial expansion of its steel making capacity from 1.35 lakh tonnes to 2.70 lakh tonnes of billets per annum. The estimated cost of these projects, amounting to Rs. 39 crores, will be met by long term loans from the financial institutions and retained earnings.

Glaxo Again Wins Exports Award

GLAXO (India) Limited has won the first Award for exports in the category of Drugs and Pharmaceuticals in respect of the year 1980-81. This is the fourth time in seven years that Glaxo has won this prestigious Award from the Basic Chemicals, Pharmaceuticals and Cosmetics Exports Promotion Council (CHEMEXCIL), instituted by the Government. Glaxo's exports recorded a high level of 27 per cent growth in the year 1980-81 over the previous year. This is noteworthy when compared with the growth of only 7 per cent in the country's exports of drugs and pharmaceuticals. In basic drugs alone, the industry's exports have declined by 12 per cent, while Glaxo's exports have increased by 23 per cent. While the company's major exports are to U. S. S. R., the company also developed new markets for its products in Australia, France, New Zealand, U. S. A. and other countries. The company made a major breakthrough in successfully exporting, for the first time, its veternary products to U. S. S. R. and health foods to Sri Lanka. Glaxo's export earnings are more than twice its foreign exchange remittances against dividend payments.

Good Response Likely for Star Textiles issue

Star Industrial & Textile Enterprises Ltd.(formerly Star Textile Engineering works Ltd.) was in the market with an issue of 1.70 lakh 13.5 per cent secured convertible debentures of Rs. 240 each totalling to Rs. 4.25 crores for cash at par recently. Of these, debentures of the value of Rs. 2 crores representing about 47 per cent of the total value of debentures have been ear-marked for preferential allotment. The balance of the debentures of the value of Rs. 2.25 crores are offered for subscription to the public.

Having recognised the importance of diversifying into fields, the company has embarked on new projects of setting up a Textile Mill at Chiplun, near Ratnagiri. for the production of high quality and specialised yarns and also to establish a modern grey from foundry with a capacity of 250 tonnes per month. The total investment for this diversification plan is of the order of Rs. 11.45 crores. This is to be financed through Rs. 2.65 crores of internal cash accruals, Rs. 2.90 crores of interest free sales tax loan Rs. 1.45 crores of deferred credit, Rs. 20 lakhs of subsidies and Rs. 4.25 crores of debentures.

The performance record of the company in the past has been quite satisfactory. The total income has increased 7.7 times in the last 10 years. The gross profit has increased 17.54 times. The profit before tax has increased 25.23 times and the retained earnings have inreased 46.66 times during the same period. The company paid a dividend of 18 per cent on its equity capital, against 15 per cent in the previous year which absorbed Rs. 23.0 lakhs owing to the increase in equity capital effected by the issue of bonus shares and conversion of part of the term loans by the financial institutions. For the year ended March 31, 1981, the company's total income and profit before tax were Rs. 18.71 crores and Rs. 1.52 crores respectively. As on that date, the reserves of the company stood at Rs. 2.19 crores against equity share capital of Rs. 1.35 crores.

8 Per Cent Interim By Tube Investments

THE Board of Directors of Tube Investments of India Limited, at its meeting held on October 22, 1981, decided to pay an interim dividend of 8 per cent (7 per cent), i. e., Rs. 0.80 per equity share of Rs. 10 (subject to deduction of tax at source) out of the company's profits for 1981. Sales both in value and volume have improved compared to, the corresponding nine month's period of previous year. Though the product costs have increased considerably, the company has reçovered only part of this increased cost by raising the sale price of its products.

Higher Earnings, Profit by Shipping Corporation

AT the Annual General Meeting of the Shipping Corporation of India held on October 30 at Bombay, its Vice Chairman and Managing Director, Vice Admiral R.K.S. Ghandhi announced that the Coporation has earned a net profit of Rs. 18.36 crores for the year 1980-81. This is after absorbing the loss of Rs. 6.47 crores on services to Andaman-Lakshadweep sectors run by SCI on socio economic grounds. But for this, the profit for 1980-81 would have been about Rs. 25 crores.

During 1980-81, SCI's gross earnings reached a further high to Rs. 500 crores (Rs. 509.19 crores). This year is very important for SCI as it has completed 20 years of its operations and its tonnage crossed the prestigious 5 million dwt mark in August 1981 and also earned profit after 3 years continuous losses during the severe slump in shipping industry. During this period it has built up a fleet which includes large size tankers, bulk carriers and combination carriers in addition to liner and passenger vessels, capable of catering to the specialised shipping needs of the Indian trade.

SCI has taken the lead to provide container services in an increasing measure. Today its container operations cover the services from India to Australia, UK-Continent, West & East Africa, USSR, the US Pacific Great Lakes and Far East-Japan & India on the inward leg. It owns a container fleet of 31 vessels with the total carrying capacity of 10473 TEUs. With the programme of the enormous growth of India's overseas trade during the Sixth Plan, the national tonnage can look forward to a larger participation in the carriage of its overseas trade and Shipping Corporation of India is optimistic of expansion of its tonnage and activities. In tune with its objective to build up a large infrastructure in the crucial area of shipping SCI has formulated plans for expansion of its tonnage during the Sixth Plan envisaging acquisition of a total 47 vessels of obout 2 million ton dead weight involving a capital outlay of about Rs. 800 crores.

The working results of SCI would have been still better if the conditions at Indian ports were conductive to shipping operations. The congestion at our ports resulted in berthing delays involving heavy time cost and loss of earning potential and also the out-dated equipments at our ports caused delay in the operations.

Unfortunately however the cargo support in India is not as adequate as it should be. The Indian trade is open to all shipping companies and the powerful outside lines carry away our high-freighted cargoes through aggressive practices which SCI, as a public sector undertaking, cannot adopt. SCI has therefore urged from time to time that the Government should lay down regulations which will enable Indian shipping to achieve its legitimate share in the carriage of India's foreign trade.

KSFC Expands, Diversifies

THE Karnataka State Financial Corporation has been consistently expanding its range and volume of operations. While the total financial assistance sanctioned by KSFC increased from Rs. 10.61 crores in 1978-79 to Rs. 17.36 crores in 1979-80 and further to Rs. 21.17 crores in 1980-81, it is likely to exceed Rs. 25 crores during 1981-82. The Corporation has set for itself the objective of achieving an annual growth rate of 30 per cent over the next four to five years. According to these projections, the total financial assistance that would be sanctioned in 1985-86 will be of the order of Rs. 60 crores. A major policy decision has been taken in the direction of decentralisation. This is sought to be achieved by the establishment of five new regional offices in addition to the branch offices, investing the regional and branch offices with higher powers and responsibilies and appointment of officers at a fairly senior level to man these offices. The Corporation will thus have five new regional offices located at Bangalore, Mysore, Tumkur, Hubli-Dharwar and Gulbarga. In addition there would be six branch offices located at Shimoga, Mangalore, Bijapur, Belgaum, Bidar and Raichur.

In addition to decentralising the operations and delegating authority down the line the Corporation intends focussing its attention on the promotion and development of industries in the hitherto somewhat neglected areas. The opening of a Regional Office in the district of Gulbarga and the establishment of the Branch offices at Bidar, Bijapur and Raichur are pointers in this direction.

Indian Politics: A Re-assessment

By THE EDITOR

OBSERVING political developments in India is like watching an x-rated hard-core film. After the initial titillation, one is repelled by the sheer vulgarity of it. And a re-run of the same sordid scenes not only bores the onlooker but also fills him with a feeling of nausea. After a while, the experience becomes so unbearable that one rushes towards the exit saying to oneself: enough is enough.

The 684 million onlookers who watch the drama that has been taking place on the Indian political stage constitute a captive audience. They seem to have no exit through which to escape. They are condemned to sit and watch till boredom and ennui benumb them into a state of daze. Many among these 684 million people may be asking themselves, *sotto voce*: "is there really no escape?". The answer to this question may well be: There will be an escape when, providentially, the theatre catches fire. When that happens, people rush out, willy nilly, leaving a frightfully large number of casualties behind. An awful scenario to contemplate.

In this year-end survey of the Indian political and economic scene, we shall analyse the major developments of the recent months — developments which were not covered in the earlier surveys dealing with the post-1980 election happenings. The reader will get a sense of continuity if he takes a quick look at what we wrote in our Annual Numbers of 1980 and 1981—both dated May 1. One is captioned: "Will the System Collapse by Mid-eighties?" and the other starts with the poser: "Holding Operation: How Long?". In this survey, we may not do anything other than repeating these questions. If we start on this pessimistic note, it is because (a) we see hardly any change in the way the ruling party is run or the manner of its ruling the country (b) the parties which are now in the opposition betray the same flaws that caused their disintegration in 1979 and (c) there has been a steady deterioration in the public probity, as evidenced by the escalating crime rate and growing corruption. It is worth examining these these three aspects, one by one.

The erosion of inner party democracy within Congress (I) can be said to be a reflection of the general deterioration in political standards in the country. But such a generalisation will not be of much help in analysing the present political malaise. Congress (I) stands on a special footing. In two respects, the party owes its existence to one person, namely, Mrs. Indira Gandhi. For one

CONTENTS

Indian Politics: A Re-assessment — *By The Editor* 1

Inflation in India: Its Main Causes and Impact — *By K. K. Sharma* 11

Factors Fueling Inflation in India — *By B. Kumar* 15

Inflation and India's Balance of Trade — *By O. P. Maurya* 19

Inflation Control and Indexation — *By H. Robert Heller* 21

Documents Relating to IMF Loan 25 to 36

Energy Consumption and Energy Resources in India: Some Alternatives — *By M. C. Kodli* 37

India's Energy Crisis: Some Policy Options — *By C. D. Singh and Y. P. Singh* 41

Challenge of the Oil Crisis: How to Meet It *By B. S. Sreekantaradhya* 47

India's Atomic Energy Programme: Past, Present and Future — *By H N. Sethna* 51

The Resurgence of Supply-side Economics — *By S. Neelakantan* 55

World Economic Outlook - 1982: Assessment By Major Regions 59

thing, it is the product of successive splits forced on the mother organisation — the party which spearheaded India's struggle for independence — by Mrs. Gandhi. It is not also without significance that these splits occured whenever Mrs. Gandhi's leadership within the larger organisation was threatened. Ergo, these splits strengthened Mrs. Gandhi's hold on the break-away faction which became the "real" congress through a demonstration of popular support to it.

For another, given the fact that Mrs. Gandhi's leadership is essential for the survival of this organisation, the middle-level and top-level leadership of the party looked up to this one person for advice and guidance. In India, grass-roots support remains a vague and nebulous concept. This support is generally tested in two ways, namely, the electoral support that a party enjoys, that is to say, the percentage of votes that a party secures in the elections and the size of the membership. The Indian experience shows that political parties are generally not very keen on enrolling members. This is in contrast to the situation that obtained during the thirties and the forties when the Indian National Congress prided itself over the fact of its having the largest number of persons on its rolls. At that time, membership carried certain conditions like spinning of yarn, wearing of *khadi* and so on. Membership of the party carried a certain commitment. Today, the membership drive is a ritual which the party's managers carry out rather perfunctorily. The lists of members are, for the most part, bogus and the money collected by way of the membership fee is often unaccounted. A party's strength is measured, in today's conditions, not by the size of its membership but by the number of its members who get elected to the state assemblies and to the two houses of parliament.

It goes without saying that this has been a major cause of the erosion of inner-party democracy. This may be easily explained. Neglect to enroll members has rendered the party's policy-making bodies—PCCs at the state level and the AICC at the national level—shadowy organisations with no real clout. This has led to a gradual shift of power from the hands of the ordinary people to those with money and influence who alone can "buy" the party ticket to contest elections and get into the legislature. This would not have seriously eroded inner party democracy, within Congress (I) if even within this plutocracy, there was scope for a candid and free exchange of views on issues affecting the governance the country but such exchanges seldom take place either in the PCCs or in the AICC. Articulation of conflicting views is reduced to the minimum because the typical member who goes through the motions of participating in these deliberations is more interested in remaining in the good books of the top leadership than in articulating the views that may be unpalatable to this leadership.

This again is explained by the way the party has evolved to subserve the wishes of one person. The successive splits in the party have coincided with the elimination of those who dared to differ from Mrs. Gandhi, if not actually challenge her leadership. The result has been that Congress (I) has become a party of yes-men and sycophants. Mrs. Gandhi's return to power in 1980 coincided with her son Sanjay Gandhi's meteoric rise in Indian politics. To be sure, the theory of dynastic succession was not a figment of the critics' imagination. Sanjay had a large hand not only in the toppling of the Janata Government in 1979 but also in planning the 1980 election strategy which resulted in a thumping victory for Mrs. Gandhi. Understandably, Sanjay began to wield great influence in the shaping of policies. What is of special significance is the fact that most of the candidates chosen to contest the mid-term elections held for the state assemblies in 1980 were Sanjay nominees. The fact that most of them won these elections established Sanjay as a master strategist. Small wonder that the chief ministers chosen to head the State Governments, after these elections, were Sanjay men. Brashness and a display of phoney radicalism helped them to get closer to the "crown prince".

There is no denying that the death of this young man has had a profound impact on Indian politics, not because Sanjay was a leader of great stature but because, under the circumstances then prevailing, he had emerged as a very effective operator. His death has caused a change in the complexion of Indian politics. To be sure, the transition from the "Sanjay era" to the "Rajiv era" has not been as smooth as has been made out in the party circles. Time alone will tell whether the induction of Mrs. Gandhi's first son, Rajiv Gandhi, into politics was a wise decision. Already, many of Sanjay's cronies have been either toppled from power or pushed to the side lines. Considering that most of them were upstarts, their fall from grace can be expected to improve the tone of Indian politics. But it is too much to hope that Mr. Rajiv Gandhi's entry into politics will make a great difference because, his "Mr. Clean" image notwithstanding, he is not capable of radicalising Indian politics and take it in a new direction.

Being quite averse to corrupt practices, Rajiv may not attract corrupt politicians towards him but his utterances about the Antulay affair make one feel that he lacks the courage to throw corrupt people out of the party or to remove them from positions of power. While the late Sanjay Gandhi was over-ambitious and dictatorial, Rajiv lacks the urge to play the role of Mrs. Gandhi's successor. In our view, the critics are wrong in pointing out that he is being groomed to succeed Mrs. Gandhi. The theory of dynastic succession got a decent burial with the death of Sanjay Gandhi. We feel that those who harp on it are barking up the wrong tree. Again, excessive preoccupation with the question of dynastic rule or perpetuation of Mrs. Gandhi in power is a sign of political myopia. Mrs. Gandhi's undoubted capacity to manipulate politics to her advantage notwithstanding, it would be naive to assume that she can stay in power as long as she likes. Where is the assurance that a people who voted her out of power in 1977 will not vote her out again when they feel, in their collective wisdom (assuming that there is such a thing), that she is no longer fit to rule the country?

Furthermore, we do not share the view of many critics that Congress (I) is an unbeatable party or that Mrs. Gandhi is invincible. While we are prepared to conceded that no national leader has the same hold on the masses that Mrs. Gandhi has, we feel at the same time that under certain configuration of circumstances, the people may well get disenchanted with Mrs. Gandhi too. However, what cannot be denied is the fact that Congress (I) has turned out to be a paper tiger. As we analysed in the earlier paragraphs, Congress (I) is no party at all when one considers that (a) it lacks democratic under-pinning, (b) its membership is largely bogus and (c) it does not have a cadre of dedicated workers who can be used as instruments in the pursuit of the party's goals. Since Mrs. Gandhi remains the heart and soul of the party, it was within her power to democratise the party set up. But the authoritarian streak in her has prevented her from following that course.

The party's good showing in several recent by-elections seems to belie this assertion. In the case of Congress (I), however, election results cannot be taken as reflecting the popularity of the party. People vote for the party's candidate not because he represents a party which is progressive and sound but because Mrs. Gandhi happens to be its leader. Without Mrs. Gandhi at the helm, Congress (I) will cease to exist. It is an awareness of this possibility that prompted opportunists like Mr. Y. B. Chavan to stage their "home coming" even under humiliating circumstances. The significance of Mr. Chavan's entry into the Congress (I) organisation cannot be belittled because it is a pointer to a possible future alignment. Mr. Chavan may deny it vehemently but the motivation behind his walk-over from the Congress which was then headed by Mr. Devaraj Urs to the Congress headed by Mrs. Gandhi seems to be the chance the latter affords to Mr. Chavan to stake a claim for Prime Ministership in the event of Mrs. Gandhi laying down office or in the event of something happening to her. This view is strengthened by the manner in which Mrs. Gandhi, who does not relish the thought of a succession battle when she is firmly in the saddle, kept the proposal of Mr. Chavan's re-entry on the shelf for an inordinately long time and admitted him without much fanfare only after destroying his credibility. History is replete with instances of *gulams* and court jesters succeeding their masters but this can be ruled out in Mr. Chavan's case.

The apparent invincibility of Mrs. Gandhi has often led many ambitious former Congressmen scattered in other parties to seek entry into her party on the plea that it would be a good idea for persons believing in "Congress culture" to come under the umbrella of a single party. Mrs. Gandhi herself encouraged this idea when it suited her. At one time, in August 1979 to be precise, Mr. Jagjivan Ram was unsuccessfully coaxed into walking into Mrs. Gandhi's parlour. At another time, Mr. H.N. Bahuguna was successfully tempted to join Congress (I), only to be thrown out later. There are many others, like Siddartha Shankar Ray, who are sold on the idea of "Congress culture", which is nothing but a euphemism for opportunistic power-sharing. In truth, the inheritors of the real "Congress culture" are those who are out of power and who have no desire to enter the rat race.

If "Congress culture" can be taken to mean adherence to the ideals which fired the imagination of the freedom fighters, not many today fit into this description. Cynics are not wanting who say that the "Congress culture" remains a synonym for rank opportunism, hunger for power, corruption and high living. Opportunists who use this catch word to get into Congress (I) are only exposing themselves to public ridicule. They should use a more straightforward expression to articulate their hidden motives. Ambitious politicians who are trying to manoeuvre themselves into a position immediately next to Mrs. Gandhi, within the party heirarchy, seem to overlook the possibility of Mrs. Gandhi working on other ideas. One such idea is a switch-over from the parliamentary system to the presidential system. There are several variants of the presidential system but since Mrs. Gandhi's purpose, ostensibly, is to operate in a system of fewer checks and balances, the French model in which ministers are answerable, not to the parliament but to the president, seems to suit her designs best.

The national executive of the Bharatiya Janata Party, which met at New Delhi early this month, listed three hurdles in the way of trundling in a presidential system, namely, the lack of a two-thirds majority for Congress (I) in Rajya Sabha, the 'basic structure' verdict of the Supreme Court and the thinking of the present occupant of *Rashtrapathi Bhavan*. BJP speculated that Congress (I) is hoping to get over these hurdles by managing to secure a two thirds majority in Rajya Sabha soon, by packing the Supreme Court with pliable judges so that the 'basic structure' judgement could be negatived and by putting a "rubber stamp" president in *Rastrapati Bhavan* by August 1982, when Mr. Sanjiva Reddy's term expires.

What makes the move (for a change-over to the presidential system) suspect is the fact that its sponsors are less concerned over the defects of the present parliamentary system and more interested in installing an executive who enjoys over-riding powers. While one cannot deny that a country like India, which has to deal with several fissiparous forces, needs a strong executive, the enthusiasts of the presidential system have not taken a principled stand on this question. Whenever the issue of "judiciary vs. legislature" was debated in this country, the Congress (I) spokesmen upheld the supremacy of the parliament even if it meant encroachment on the "basic features" of the Constitution. Now, we hear less of the supremacy of parliament and more of a president having sweeping powers. From this, one gets a feeling that the real motive behind the demand for a presidential system is to reduce the executive's accountability to parliament. It is not only the judiciary whose wings must be clipped but the power of the legislature which often cramps the style of the executive. Such is the reasoning of the coterie which is propagating the virtues of the presidential system.

Whether the ruling party is deliberately denigrating the authority of parliament or not, the fact remains that the quality of the business transacted in the two houses of parliament has shown a steady decline, over the decades. To say that the ruling party is largely responsible for this decline would be an exaggeration. The decline is as much due to the unruly behaviour of the members of the opposition parties as to the stone-walling tactics of the Treasury Benches. The deterioration can be noticed in (a) the shortening of the duration of the sittings of the two houses (b) the frequent absence of the Prime Minister during discussions of great national importance (c) the partisan tinge that is seen in some of the rulings of the presiding officers (d) the practice of promulgating ordinances — even those that are not of an urgent nature — when these measures could have been introduced in parliament in the normal course (e) the excessive preoccupation of the members with their own privileges (f) the slipshod drafting of the bills and ill-informed, motivated discussions thereon and (g) the general corruptibility of individuals (with several significant exceptions) who get elected to parliament. Those who are not favourably disposed towards Mrs. Gandhi and her party are not slow in pointing out that she may well use this (decline in the authority of parliament) to buttress her argument in favour of replacing the parliamentary system by the presidential system.

Be that as it may, the problems that are of immediate relevance include (1) the spread of corruption, covering practically all walks of life and (2) the fast deteriorating law and order situation. While it can be argued that both can be traced to an underlying economic malaise, they greatly impinge on politics. And the failure of Mrs. Gandhi's Government is nowhere more evident than in its failure to deal with these two evils. We do not go to the extent of saying, as the opposition parties do, that Mrs. Gandhi remains the "fountain head of corruption" but what cannot be denied is her permissive attitude towards activities which qualify to be termed corrupt practices. It may be recalled that one of the major accusations levelled by the combined opposition led by Jayaprakash Narayan in 1975 — this triggered the events leading to the imposition of the emergency — was that her partymen in the Government were indulging in large-scale corrupt practices. Some of the unsavoury happenings during the emergency (1975-76) were commented upon, may be, in an exaggerated form, by the committees and commissions set up by the Janata Government to go into the excesses and lapses committed by Mrs. Gandhi's Government.

The reports of these bodies, notably those of the Shah Commission (emergency excesses) the Gupta Commission (Maruti affair) and the Dass Committee (misuse of mass media) which contain startling findings on the alleged wrong-doings of the Congress Government were condemned by the regime which succeeded Janata as politically motivated and were duly pigeon-holed. This was the only logical, though morally unacceptable, thing for the successor Government to do because if it had acted on the findings of these commissions, that would have meant committing *hara kiri* soon after its election with an overwhelming majority. What can be more appropriate than carrying out the mandate of the people ?

Leaving aside these incongruities for the moment, one wonders why Mrs. Gandhi, after securing such a clear mandate from people, did not capitalise on it by steering the nation on an entirely new course? The Bharatiya Janata Party, in its resolution on corruption, said early this month that Mrs. Gandhi has neither the will nor the ability to deal with this menace. The points made in that resolution were : (1) Her inability to deal with Mr. Antulay (Chief Minister of Maharashtra) for his alleged misdeeds ; (2) the take-over of Maruti, a bankrupt concern ; (3) the Government's sugar policy which helped the sugar mill owners ro reap adventitious gains ; (4) the import of edible oils and wheat which helped some persons and groups to earn commission ; (5) even in the purchase of arms for national defence, getting a commission remained a major consideration with some persons. Such accusations by a party in the opposition may be dismissed as politically-motivated but impartial observers too have come to some disturbing conclusions. For instance, Mr. B. K. Nehru, Governor, of Jammu and Kashmir, in his G.L. Mehta Memorial Lecture (December 22) observed :

> Corruption is rampant in every sector of our society, private as much as public, but I speak today only of corruption within the Governmental process for, given the dominant role that Governments play in any country, it is the values practised (rather than preached) by our masters, the elected representatives of the people, that set the tone for society as a whole.
>
> It is unfortunately undeniable that corruption has spread to every part of the Governmental apparatus. The record in office of no political party is better than of any other. We are powerless prisoners of the system within which we must operate. An uncomfortably large number of politicians and ministers are corrupt. Corruption is universal in the lower ranks of the public services. It has affected the middle ranks as well and is now infecting the apex of our administrative structure—the all-India services—who used at one time to be, like Caesar's wife, wholly above suspicion.

Surely, Mr. Nehru cannot be accused of being an Indira-baiter. While changing the system overnight may be considered impossible, the Government can make a small beginning by initiating legislation for setting up the institutions of Lok Ayukt (for dealing with corruption by officials) and Lok Pal (for dealing with corruption by ministers and legislators) as recommended by the Santhanam committee in the sixties.

The high cost of contesting elections in this country is also a major cause of corruption. As Mr. Nehru observed, contesting for a parliamentary seat costs anywhere between Rs. 5 lakhs and Rs. 20 lakhs while contesting for a seat in an assembly costs Rs. 1 lakh to Rs. 5 lakhs. Since neither the political parties nor the individual candidates have resources of this order to contest elections, they seek the help of industrialists and business houses for this purpose. To quote Mr. Nehru again, "The system has tended to degenerate into a more direct relationship between the money contributed and the favour granted. Once this nexus is accepted as a valid concomitant of the democratic culture—as it seems to have happened in India—not even the most powerful leader can stop the advance of corruption". Since, under our present laws, donation by companies to political parties is deemed illegal, the ruling parties—be they Janata or Congress or Lok Dal—as well as the business lobby has a vested interest in maintaining a flourishing black money sector. This partly explains why the Government is reluctant to adopt drastic measures to immobilise black money. Inflation and black money reinforce each other. Holders of black money take advantage of scarcities to sell scarce commodities illegally at higher prices, thus providing additional steam to inflation. The Government's lack of political will to break this vicious circle stands in bold relief.

While on the subject of corruption, a passing mention of the "Antulay affair" may not be out of place. We consider it important not because it is a unique instance of quasi-corruption in this country but because it exemplifies the present moral decay and permissiveness in the country. Put in a nutshell, what Mr. A.R. Antulay, Chief Minister of Maharashtra, did was to set up a number of privately managed trusts to raise huge funds running to crores of rupees (whether they run into two digits or three, one is not sure) seemingly by following the *quid pro quo* principle—a matching of funds received against official favours given. The favours thus granted include out-of-turn allotment of cement quotas, assorted concessions given to sugar barons, allotment of house sites to individuals and so on. Himself a barrister of repute, Mr. Antulay has found enough loopholes in the rules (laid down for conducting official business) for denying a causal connection between the donations received by the trusts set up by him and the allotment of cement, house sites etc. to certain individuals and firms. He has taken the stand that, so long as the funds raised are used for the benefit of the poor, no one can accuse him of indulging in corrupt practices.

Mr. Antulay's logic is faultry for the simple reason that a socialist government which is dedicated to the cause of the poor can achieve its sta'ed goals by raising and spending money in a manner that is deemed necessary. It is only in a capitalist system of government, where ameliorative and welfare schemes are frowned upon, that one can think of raising funds outside the government or of enlisting the cooperation of philanthropists in the task of helping the poor. Private philanthropy and socialism go ill together. What is pernicious about the Antulay principle is that favours done to certain groups on a *quid pro quo* basis tend to push the prices of items in which these groups are interested. Hypothetical instances can be cited. Cane growers and sugar barons donate to a trust launched by the politician in power; they are rewarded with an increase in the prices of cane and sugar. This can be repeated in the case of any commodity whose prices are administered by the Government. These acts of reciprocity negate the very purpose for which controls are administered. The Antulay principle is winked at by the lobbies because it helps them to earn the goodwill of the men in power. It also helps the politicians because they can enlarge their power-base through the use of the money—both black and white—collected in the process.

The net loser will be the public—especially the less privileged sections—which will be denied access to a scarce commodity as a result of out-of-turn allotments and, in many cases, will be made to pay a higher price. And, where the lobby concerned secures tax concessions, the Government will get less of tax revenues which often means a cut in welfare expenditure. What is involved is not merely the political fortunes of an individual; it is the vital question whether this country should continue to be ruled by political fortune hunters and wheeler-dealers whose only concern is to make a quick buck or by persons whose moral probity is above reproach.

From Mrs. Gandhi's tongue-in-cheek assertaion, "corruption is a universal phenomenon", it is evident that she is not keen on sweeping away the present system based on corruption and replacing it by a system based on acceptable norms of public conduct. Take the stand of the central leadership on the issues raised in the Antulay cases. Both Mrs. Gandhi and Rajiv Gandhi seem to think that so long as Mr. Antulay enjoys the confidence of the majority in the Maharashtra legislature Congress (I) Party, it would be wrong to remove him from the Chief Ministership. The logic of this line of reasoning can be questioned on two grounds. Firstly, the post-1980 pattern has been to select or remove chief ministers without any vote being taken at the meetings of the legislature Congress (I) party, at the level of the concerned state. It is simply that the local leadership, viz., the MLAs belonging to the party, have surrendered this initiative to the Prime Minister. Why then make an exception in the case of Mr. Antulay? Secondly, the manner in which Mr. Antulay is trying to "purchase" the support of the party MLAs through devious means makes a mockery of democratic procedures. How can he vindicate his stand by resorting to a corrupt practice (buying the support of the MLAs) in order to neutralise the effect of a questionable practice followed earlier?

We would like to touch upon another area where the Government's failure is evident. This is deterioration in the law and order situation. An explanation for this deterioration, which seems to be largely valid, is that the crime rate tends to go up when a larger percentage of people are pushed below the poverty line and more young people join the ranks of the unemployed. The deteriorating economic situation affects the law and order situation in two ways: (1) those who are driven to the wall take to crime (theft, robbery, cheating and so on) as the threshold of endurance is lowered and (2) the growing number of the unemployed take to the streets to articulate their frustration. That this is a reflection on the Government's inability, over the decades, to make a dent in the chronic economic problems facing the nation goes without saying. Another explanation which has some validity is the rise in social tensions resulting from the very ameliorative measures adopted by the Government to help the less privileged and socially backward classes.

For instance, imposition of land ceiling and distribution of the surplus land among the landless invite the ire of the landed gentry who use strong arm tactics to intimidate those who benefit from the land reform legislation. This is often done with the connivance of the law enforcing authorities. Many a time, hired trouble makers are let loose on the beneficiaries of ameliorative legislation. And, as the agitation of medical students in Gujarat showed, preference shown to scheduled castes and scheduled tribes under the scheme of reservation invites the anger of the higher castes who are affected by such a measure. Mass killings in certain villages in Uttar Pradesh and Bihar, which are the subject of a nation-wide debate, can be attributed to extraneous causes like the vendetta taken by dacoits, rivalry among gangs of criminals and so on. However, the high incidence of robberies in the trains and on the highways in the recent months cannot be explained away by citing the growing economic distress. It is a reflection on the politicisation, apathy and incompetence of the law and order machinery. Protection of the life and property of the citizens is a major concern of any civilized government. A government which fails in performing this basic duty forefeits its right to govern.

Another distressing—and disturbing—aspect of the law and order situation is the nexus, in many states, between the professional politicians and professional criminals. Politicians find such a collusion useful in times of elections when anti social elements are asked to capture polling booths in order to scare away the supporters of their opponents and also to cast bogus votes. Needless to say, this nexus (between politicians and criminals) needs to be broken if the Government is genuinely interested in reducing the crime rate. Politically-motivated challenges to law and order stand on a different footing. The challenges include (a) the continuing agitation by the people of Assam against "foreigners" who have migrated into the state in the recent decades and have settled there; (2) the agitations of farmers in some states for securing higher prices for the produce; (3) continuing unrest among the tribals who constitute the majority in the north-eastern states and (4) the movement launched by the Sikh hot heads for an independent Sikh state—Khalistan While the opposition parties are justified in mounting an attack on Mrs. Gandhi's Government for its lapses, they should not weaken her hands in dealing with agitations which tend to harm the country's integrity. Both the opposition parties and the ruling party should sit round a table and evolve a common policy to deal with national issues which cut across partisan considerations.

The widespread discontent prevailing in the country has encouraged many political analysts to predict that what happened in 1974-75 will be repeated in 1982. What they predict amounts to saying that the opposition parties will merge their identity in a single party and will try to bring down Mrs. Gandhi's Government by capitalising on the prevailing discontent. This may or may not happen. Of course, there are similarities and differences between the situation that prevailed in 1974 and the situation that prevails today. At that time, India was recovering from the economic consequences of the Bangladesh War and the resultant double digit inflation and the labour unrest provided enough grist to the opposition mill. Besides, under the leadership provided by Jayaprakash Narayan, the opposition was able to sway public opinion to its side. This, coupled with the adverse verdict of the Allahabad High Court (disqualifying Mrs. Gandhi from holding office) provided the Prime Minister enough justification (from the point of view of her political survival) for declaring an emergency on June 26, 1975.

It is debatable whether she would have survived the opposition onslaught without resorting to extra constitutional measures. And it is equally debatable whether the opposition would have succeeded in forging a united front against her if she had not resorted to measures of repression like the arrest and imprisonment of thousands of opposition leaders, forced vascectomies, demolition of the hutments of the poor in Delhi, placing on the statute book of draconian laws like MISA and the clamping of censorship on newspapers. There is a vital difference between the situation that prevailed in 1974-75 and the one that prevails today. While one cannot deny that the failure of the Government to show results on the economic front has caused widespread disenchantment, the people, by and large, seem to be prepared to grin and bear it. Besides, there is enough evidence to suggest that the rate of inflation has come down, industrial production is picking up and infrastructure deficiencies are removed, to a large extent, and a bumper harvest is in the offing. As against this, unemployment continues to snowball from year to year, and disparties are widening. In a situation of this kind, with plus and minus points cancelling out one another, the opposition parties, even if they unite, are unlikely to discredit Mrs. Gandhi completely.

The people turn to the opposition only when they are subjected to repression. And Mrs. Gandhi can be expected not to repeat the mistakes she committed before and during the emergency. She still has three more years to go — the next general elections are due in 1985 — and with the overwhelming majority she enjoys in parliament, she need not spend sleepless nights over what a combined opposition can do to make things difficult for her. At this point, one can as well speculate on what chances the opposition parties have for forging a united front or, better still, for merging their identity in a single party, as they did on the eve of the 1977 elections.

For one thing, there are fair chances of the non-communist opposition forging a united front in the new year. There is already some understanding among the Janata Party, the Lok Dal and the Congress (S) to share a common platform for articulating the problems affecting the common man. Although many in the Janata Party have not forgotten the role played by leaders like Charan Singh, Madhu Limaye, George Fernandes and Raj Narain in breaking the Janata conglomerate, there is a general disposition to forget the past and to repeat the 1977 experiment. The only stumbling block to complete opposition unity is Bharatiya Janata Party's links with RSS. If BJP formally severs its links with RSS, then a way can be found to form a single opposition party consisting of Janata Party, Lok Dal, Congress (S), Congress (J), BJP and Bahuguna's DSF. Although the disastrous experiment of 1977 should engender caution (the Janata Party broke up in 1979 following serious personality conflicts and on the RSS issue) one can safely envisage that the compulsion of circumstances will soon bring together the non-communist opposition parties under one umbrella.

If a polarisation of this nature materialises, then India will have three major political groupings: (1) So long as Mrs. Gandhi stays at the helm, Congress (I) will remain the dominant left-of-the-centre party. Within the party, there will be no challenge to Mrs. Gandhi's leadership; (2) the non-communist opposition can be expected to forge a united front, or form a single party to pose a challenge to Congress (I) leadership in the 1985 elections. The new conglomerate can be expected to make a better showing in the by-elections that will take place between now and 1985. Policy-wise, this group will be practically indistinguishable from Congress (I); (3) The communist parties — the non-Naxalite Communist parties, to be precise — will make a determined effort to come together. How far they will succeed in this task depends on (a) the readiness of the CPI to distance itself from the ruling party, even at the risk of causing many eye brows to be raised in the Kremlin and (b) the willingness of CPM to shed its stance of equidistance (between Moscow and Peking) and accept the ideological leadership of Russia. For obvious reasons, the Dange faction will remain outside the communist mainstream. Polarisation of political parties along these lines will be delayed if a war intervenes either in 1982 or in 1983. The only party which can consolidate its hold on the levers of power in the event of a war will be Congress (I). Mrs. Gandhi is a past mistress in turning an adversity into a blessing. Victory in a war will ensure her party's victory at the hustings.

II

Although gloom and uncertainty pervade the Indian political scene, the picture obtaining on the economic front is far from depressing. The spokesmen of the Congress (I) Government have often contrasted the recovery that the economy staged after 1979 with the state of disarry witnessed during the Janata rule. While the validity of politically-motivated comparisons is open to dispute, what cannot be denied is the fact that there has been a marked improvement in the performance of the economy during the latter half of 1980 and in 1981. We make no apology for enumerating the plus points, as given in the official year-end review released recently.

Foodgrains production in the crop year 1981-82 is expected to reach 133 million tonnes, against 130 million tonnes in the previous year. This is an improvement over the poor harvest of 109 million tonnes recorded in 1979. Industrial production, which recorded a negative growth rate of 1.4 per cent in 1979-80, showed a 4 per cent growth in 1980-81. In 1981-82, it is estimated to go up by 10 per cent. Higher than average performance was registered by many industries which include sugar, steel, aluminium, automobiles, soda ash, vanaspati, among others. This is rendered possible by the improved performance of industries coming under the term "infrastructure". There has been a 12 per cent increase in power generation in 1981. Coal production too recorded a similar rise. In 1981-82, coal production is expected to reach 124 million tonnes, against 105 million tonnes in the previous year. Further improvement in the power sector however hinges on (a) improved coal supplies to the thermal plants (b) avoidance of slippages in the construction of new power projects (c) minimisation of transmission losses and (d) better management of the state electricity boards. The improvement in the movement of wagons on our railways also contributed to the recovery on the industrial front.

Industrial production continues to be hampered by the difficulty faced by private sector companies in securing working capital from the banks, due to the Reserve Bank's restrictive credit policy, uncertainty in regard to the supply of raw materials, inflation-induced cost over-runs and work stoppages due to labour unrest. There has been a distinct improvement in the investment climate. The index number of share prices, which stood at 140 at the beginning of 1980, improved to 193 on November 14, 1981. While in 1979-80, the capital raised by companies amounted to Rs. 70.20 crores, it amounted to Rs. 112 58 crores in 1980-81. This is expected to go up to Rs. 400 crores in 1981-82. A heartening feature of the capital market is the growing interest of small investors who accounted for more than 50 per cent of the applicants for shares floated in the new issues market. Widening investor interest is also evident in the increase in the number of letters of intent and licences issued from 671 in 1979 (January-October) to 1001 in 1980 and 1063 in 1981 during the corresponding periods.

Particularly heartening is the improvement in crude production which is expected to result in a substantial saving in the oil import bill. From 9.39 million tonnes in 1980, crude production is expected to rise by 55 per cent to 14.56 million tonnes in 1981. Considering that the country's oil requirements in 1981-82 are of the order of 31 million tonnes, the foreign exchange outgo on account of oil imports will be sizable in the coming years. This underscores the need for adopting a more vigorous policy of energy conservation, even assuming that crude production during the Sixth Plan will go up to 30 million tonnes.

On the foreign trade front, exports rose by 11.5 per cent during the period, April-September 1981, while imports declined by about 7.5 per cent during the same period. This is expected to narrow down the trade gap in 1981-82. When one considers that the trade deficit in 1980-81 was of the order of Rs. 5,500 crores, a sizable trade deficit of around Rs. 3,000 crores seems inevitable this year. The incentives that the Government has provided for boosting export production are expected to improve export performance but the prevailing inflationary conditions tend to weaken India's competitiveness abroad. Two other factors seem to militate against reducing the balance of payments gap. They are (1) continued import of commodities in short supply (e.g. steel, edible oils, wheat and so on) and (2) lack of quality conciousness among our exporters. Unless these hurdles are removed, we will not able to impart viability to the country's balance of trade. In the context of the need to improve the country's foreign exchange earnings—they are depleted fast in 1981 —there is need to (a) step up earnings from tourism and (b) remove the obstacles that stand in the way of increasing the inward remittances of Indians working abroad. True, receipts from tourists has increased from Rs. 376 crores during the first ten months of 1980 to Rs. 498 crores during the corresponding period of 1981 but we see a different trend on the remittances front. The flattening of the Gulf boom is a major cause of the decline in inward remittances.

The successful deal with the International Monetary Fund for an extended facility of SDR 5 billion has been cited as a major economic event of 1981. It is admittedly an event of great importance but one cannot be sure whether to put it on the plus side or on the minus side. Critics of the IMF loan have argued that the loan, equal to over Rs. 5,000 crores, could have been avoided had the government taken effective measures keep the balance of payments on an even keel. They have also pointed out that when the repayment of the loan commences, the burden of servicing it would again cause distortions in the balance of payments. Another criticism of the IMF loan is that it would foreclose India's policy options and take the country away from socialism to capitalism.

Our own view is that the Indian Government was perfectly justified in approaching IMF for a loan since the oil import bill had greatly affected the viability of the balance of payments and the country needed a breathing space for making the necessary structural adjustment. Whether the Government will really succeed in bringing about a structural change within the period covered by the loan is open to doubt. To be sure, there will be a determined effort to reduce the country's dependence on oil imports but its favourable effect will be neutralised if, following IMF's policy guidelines, India were to liberalise imports. On the other hand, certain other IMF-oriented policies like setting a limit to the growth of money supply, restricting the budgetary deficit, upward adjustment of administered prices in order to improve the profitability of industries, elimination of subsidies where they are used to cover up inefficiency and an exchange rate policy which prevents an overvaluation of the Rupee should help in actually improving the working of the economy. As the Finance Minister, Mr. Venkataraman pointed out, if the balance of payments improves in the next few years, India may not draw the last instalment of the IMF loan.

The Government's half-hearted measures to deal with black money have also come in for severe criticism. In particular, the scheme of Special Bearer Bonds—a variant of the voluntary disclosure schemes tried earlier — which offers Rs. 12,000 on every Rs. 10,000 after 10 years, with no question asked, has come in for adverse comment. Initially, the measure yielded only Rs. 386 crores till it was challenged in the Supreme Court. Since the court has handed down a favourable verdict, the Government haa again revived the scheme with the hope of collecting the budgeted amount of Rs. 1,000 crores in 1981-82. Even if it succeeds in mopping up an amount of this order, it does not invalidate the criticism that it places a premium on dishonesty.

A realistic appreciation of how the black money world thrives is necessary before the Government formulates policies to deal with it. Indeed, there is nothing 'black' about black money except for the fact that incomes or profits generated in this sector avoids the tax net. Since it is an area where accounts are not maintained for official scrutiny, this money comes in handy for all transactions involving evasion of the law. There is no denying that the black money sector has grown enormously in the recently decades. Mr. Nani Palkhivala puts the annual rate of growth of this sector at Rs. 14,000 crores. Critics are not also slow in pointing out that the Government is reluctant to make a frontal assault on black money because of the nexus between the politicians and political parties on the one hand and black money operators on the other. So long as this nexus exists, the policies of the monetary authority to restrict credit and bring down prices will meet with only limited success.

The country continues to be menaced by inflation, largely falsifying the Government's claim that "India has become one of the few countries which have successfully brought inflation to a single digit rate." Going by the wholesale price index, the inflation rate in the country has come down from 22 per cent in 1979 and 13 5 per cent in 1980 to around 8 per cent this year. Two factors limit the usefulness of the wholesale price index in measuring inflation in this country. They are (a) the trend of the consumer price index which does not closely follow the WPI and (2) the prices the dicated by the black money sector which do not get reflected in the official figures. What renders the outlook on the price front somewhat gloomy is the fact that the budgetary deficit has not shown any marked decline. Over the past three years, they have remained close to, or well above, Rs. 2,000 crores.

One may also touch upon the Sixth Plan (1980-85) which is in jeopardy on three counts, namely, (a) the 40 per cent price-increase since the formulation of the plan, (b) the variation between the actual increase in the country's population and the projected increase and (3) the need to step up defence outlay in view of the new threats to India's security. The real implication of the price increase is that if plan targets, in physical terms, are to be achieved, there will have to be sizable step up in the plan outlay, in money terms, to take care of the price escalation that has taken place. As for the defence outlay, it remains the sacred cow, as hinted at by the Prime Minister, at the meeting of the Planning Commission held a few days ago. Mrs. Gandhi has stated that it may become necessary to effect drastic cuts in the sectoral outlays and to reorder the priorities. The amounts spent on the plan schemes during 1981-82 reveal the distortions that have already been caused in the sectoral outlays. If this is any indication, there is every possibility of the socialist content of the plan getting seriously eroded as a result of the re-ordering of the priorities and allocations which has become unavoidable.

To sum up, although the outlook for 1982 appears to be reasonably good, it would be over-optimistic to expect that the goverment will succeed in meeting the challenges posed by inflation and the poor performance of several sectors in the economy. While Mr. Venkataraman's first two budgets were fashioned with an eye on providing a special boost to saving and investment, the budgetary exercise in 1982-83 is unlikely to follow this approach because the growing gap between the revenues and expenditure calls for a widening of the tax net. The Finance Minister will thus face the difficult task of reconciling the two apparently contradictory objectives of providing sufficient incentives to the investors in order to help in creating substantial new capacities and of augmenting the government's revenues through a more rigorous tax effort. The availability of the $5.7 billion IMF loan is unlikely to provide any respite to the Finance Minister because it remains outside the purview of normal budgetary transactions.

The state governments, which egged on the Planning Commission to produce a bigger Sixth Plan, have not shown the same enthusiasm for raising resources for financing their share of the plan outlay. Most of them have run sizable deficits and have overdrawn heavily from the Reserve Bank. The state chief ministers have shown greater concern for introducing crowd-pleasing measures than for fulfilling the goals of the Sixth Plan. If the economy is to be maintained on an even keel, the governments—both at the Centre and in the states—should improve the functioning of the administration and effect the utmost economy in non-developmental expenditure. No less important is the need to streamline and widen the public distribution system so that the vulnerable sections are protected from further rise in the prices of essential commodities.

A word about the performance of the public sector units may not be out of place. While many leading public sector undertakings have given a good account of themselves, quite a number of them have incurred heavy losses. Considering that the public sector sets the tone for the performance of the entire industrial sector, there is urgent need to pull up the laggards. This calls for a series of measures which include the appointment of professional managers to head the undertakings which are "headless" at present, a personnel policy which eschews conflict and a pricing policy which fully covers the cost of production.

Southern Economist
wishes all its
readers,
contributors,
advertisers
and well-wishers,
a Happy New Year

Inflation in India: Its Main Causes and Impact

By **K. K. Sharma** *

Inflation is rightly considered as the most serious economic problem facing the country because it erodes the purchasing power of the people — especially the poorer sections who remain below the poverty line and the fixed income groups. Furthermore, inflation retards the growth process by causing a shrinkage in savings. In this article, the author takes a close look at the price-trend of the seventies and concludes that it may not be possible to contain inflation to a low rate because of the external factors over which we have no control.

INFLATION in India has been progressing at a rapid pace in the recent months. In fact, its pace has been fairly rapid during the last 2 years. It has virtually defied measures to contain it. The wholesale price index (1970-71 = 100) rose from 217.6 in 1979-80 to 256.8 in December 1980. It rose to 274.1 in April 1981 and by then it had been rising at the rate of 15.9 per cent per annum. During the calendar year, 1980, it rose from 227.7 to 256.6, i. e., by 12.7 per cent in the 12 months. It touched a peak of 284.6 for the week ended July 11, 1981. This is an increase of 11.1 per cent as compared to the end December 1980 level. During this period, the composite index of administered items — coal, petroleum, electricity, fertilisers and cement rose by 10.3 per cent. The other items in the index as a whole registered an increase of 11.4 per cent.

This recent spurt in the wholesale price index is due to an increase in the prices of a wide spectrum of commodities, including steel, coal, fertilisers, aluminium, electricity and cement as also those of levy sugar, course grains and petroleum. The commodities whose prices are subject to administrative control account only for about 20 per cent of the aggregate weight in the wholesale price index. The sharp increases in some of them — petroleum products and coal — have contributed significantly to the general rise in the price level.

The compound rate of rise in general price level was 2.7 per cent between 1950-51 and 1965-66 in 15 years. It was 5.9 per cent in 10 years between 1955-56 and 1965-66. It was 5.8 per cent between 1960-61 and 1965-66; 8.2 per cent for 1961-62 / 1962-63 and 8.9 per cent for 1963-64 / 1965-66. Between 1967 and 1972, the inflation rate varies from 3 to 5 per cent a year.

% CHANGE OVER PREVIOUS YEAR IN WHOLESALE PRICE LEVEL BETWEEN 1971-72 AND 1980-81

1971-72	5.6
1972-73	10.0
1973-74	20.2
1974-75	25.2
1975-76	– 1.1
1976-77	2.1
1977-78	5.2
1978-79	No change
1979-80	16.7
29-3-1980 31-3-1979	21.4

Source: *Economic Survey*

During the last ten years, price level continued rising between 1973 and 1975. There was stability thereafter up to 1977; but as pointed out above, there has been a phenomenal rise thereafter. Any expectation of a return to the stability of 1974 to 1979 or of limiting inflation to the rate of 5 to 6 per cent prevailing between 1967 and 1972 is not possible.

According to *World Economic Outlook*, an IMF Publication of May 1980, inflation is a world wide phenomenon, though its rate varies from country to country. In industrial countries, its rate for domestically produced goods and services in terms of GNP deflation was much lower than in terms of consumer price indices, being 7½ per cent for 1979 and 1980 and expected to reach 9½ per cent in 1980. For non-oil developing countries, the overall increase in consumer prices in 1979 and 1980 was about 30 per cent. In the oil exporting group of developed countries, it was brought down from 19 per cent in 1975 to about 10 per cent in 1978, rose to 11 per cent in 1979 and 12 per cent in 1980.

The principal factor responsible for high inflation in India is the fact that we are importing inflation from abroad. Our imports have been continually rising, leading to increase in deficit in foreign trade and to decline in foreign exchange reserves.

In our imports petroleum and petroleum products account for about 45 per cent of the payments. Between 1973 and 1974, the oil price increased from $ 3.22 a barrel to $ 10.49 in 1974. It increased slowly up to 1978 when it was $ 12.86. Between 1978 and 1980, it went up by about 135 per cent. This led to the slackening of growth rates, inflation and balance of payments difficulties. The oil price hike not only led to increase in payments for our imports, but they led to increased cost of production and to cost push inflation. Our exports had to face keen competition abroad and could not grow fast.

Primary articles occupy about 42 per cent weight in our Wholesale Price Index. Foodgrains edible oils, oil seeds, sugar, fibre, cotton textiles. mineral oils occupy 46 per cent weight in WPI. Their price movements are determined basically in inter-

---

* Dr. Sharma is ex-principal, Meerut College, Meerut-250 001.

(Rs. crores)

Year	Exports	Imports	Unfavourable balance	Foreign Exchange Reserves
1978-79	5726	6814	— 1088	5220
1979-80	6459	8908	— 2449	5164
1980-81	6670	12106	— 5436	4882

national markets. Over the last decade, their international prices have shown more volatile movements than those of manufactured goods. The high weight attached to them in our WPI means that international price movements have a dominant role in Indian price movements. According to *Economic Survey* 1980-81, "International inflation also gets imported into the country through other major imports such as fertilisers, steel, cement, chemicals and chemical products, machinery and equipment. It is not possible to insulate the economy from such effects."

It is sometimes argued that international factors account for a very small share of domestic inflation whereas domestic factors play the dominant role. The argument is that fuel, power, light and lubricants group has a weight of 8.5 and mineral oils a weight of 5 in our WPI. These two have weight of only 13.5 per cent in WPI. A very heavy rise in their prices would exercise a minor influence on our price level.[1]

This argument is not weighty not because domestic factors are not important in influencing wholesale price level in India, but because it minimises the role of international forces. The most common form of price transmission is through arbiterage according to which in competitive markets where there is no product differentiation, prices tend to equalise. This equalisation tendency depends upon the potential to trade. The freer the potential the more uniform and rapid the equilisation. Restrictions on trade may lead to time lag in equalisation. During the last several years the prices of commodities like sugar, edible oils, etc. have followed the trend of prices prevailing in their major international markets and not on the position of their supply and demand in India. When their world prices are high, their prices in India are also high and if their supplies are large, they would be exported. This happened in the case of sugar in 1974-75. On the other hand, when their world prices are low, their prices in India would also be low and if they are in short supply in India, they would be imported. Of course, the level of our foreign exchange reserves will also affect this position and our foreign exchange availability in the last few years had been satisfactory. Further, the elasticity of demand for wage goods has been small so that a small quantity had to be imported to meet the situation.

Domestic factors are also responsible for inflationary situation in the country. In this category would come deficit financing, money supply position, short supplies of commodities, particulary wage goods and infrastructure fucilities. Central and state governments in India have been resorting to deficit financing to finance their expenditure, which has aggravated inflationary pressures in the country. In fact, all over the world the main thing about public finance is lack of adequate control over expenditure, particularly in respect of defence, development, social justice, etc. There is constant increase in public expenditure, which leads to inflationary situation. In India, the centre has to meet the demands of State governments also for resources.

Overall deficit both on revenue and capital account in India rose from Rs. 46 crores in 1969-70 to Rs. 1639 crores in 1980-81 budget. This has been partly financed by issuing Treasury Bills and partly by writing down cash balances. Centre's Budget deficit has generally been higher in the revised or actual accounts than in the budget estimates.

In 1980-81 B.E. the overall deficit was financed by issuing Treasury Bills to the extent of Rs. 1415 crores. According to the Reserve Bank's Report for 1981, the Government's dependence on the market has been growing because of surging revenue deficits and annual gross market loans now about Rs. 3000 crores have gone up by more than two-thirds. The Reserve Bank has to take in an increasing portion of such loans as the market for government loans is narrow. The Reserve Bank's holdings of dated securities increased by Rs. 29 crores in 1978-79; but in 1980-81, they increased by Rs. 1,229 crores. A sizeable portion of this increase in Reserve Bank's holdings consititutes deficit financing. This backdoor deficit financing is in addition to the declared deficit incurred by the Centre. The declared deficit for some years is given below:

Year	Deficit Financing (Rs. crores)
1978-79	1798
1979-80	2433
1980-81	1975
1981-82 (B.E.)	1539

The budget estimate for deficit financing for 1981-82 is less than that for the three preceding years; but the annual increase in Reserve Bank subscription to dated loans of the Centre has gone up by over Rs. 1,000 crores on an annual basis. The net impact of government expenditure thus financed is expansionary and if continued will remain inflationary. The decline in foreign exchange reserves has contractionary impact.

This is, however, eroded by the additional indirect deficit financing. Thus although the decline in foreign exchange reserves offsets for the time being and even necessitates to some extent the expansionary impact of budgetary transactions, it is clear that the revenue deficits of the Centre cannot be continued for long and have to be contained. The rise in the statutory liquidity ratio in July 1981 increased commercial bank credit to the government. State governments' overdrafts from the Reserve Bank also add to deficit financing and add to inflationary pressures in the economy.

---

[1] Article by Dr. Raj Krishna, *Times of India*, January 2 & 3, 1981. Accounting to the late Prof. C. N. Vakil, "The money supply statistics, the export credit and balance of trade figures do not support the thesis that Indian inflation is part of a world problem" War Against Inflation, p-161.

Another important domestic factor that produces inflationary pressures in the economy is the expanding money supply, which has been much higher than the growth rate in the economy. During the period of economic planning, the average annual growth rate has been about 3.5 per cent; but the growth in money supply has been much larger. In 1979-80 and 1980-81, the rate of monetary expansion was 17.3 per cent and 18 per cent respectively. Between March and August 1981, money supply increased by Rs. 3,042 crores or by 5.5 per cent. This is higher than the rise of Rs. 2,421 crores or 5.2 per cent that took place in the comparable period of 1980-81. This expansion rate has come on top of increase that took place in 1979-80 and 1980-81.

On a year to year basis also there has been an accelerated pace of monetary expension. On August 28, 1981 money supply stood at Rs. 58,271 crores, showing an increase of Rs. 9,050 crores or 18.3 per cent as compared to the level of August 29, 1980. This is higher than the rise of Rs. 6,387 crores or 14.9 per cent that took place between end August of 1979 and 1980. The following Table shows the trend in money supply:

	(Rs. crore)
Aug. 29, 1980	49221
Aug. 28, 1981	58271
End March, 1980	46800
End March, 1981	55229

The increase in money supply can be restrained by economy in government expenditure and by control over backdoor and declared deficit financing. The following Table shows the net annual growth rate in India at 1970-71 prices.

I Plan period	3.6
II Plan period	4.0
III Plan period	2.2
Three Annual Plans 1966-69	4.0
IV Plan period	3.4
1974-75	1.5
1975-76	9.8
1976-77	1.3
1977-78	8.6
1978-79	5.8
1979-80	—4.9

The following table shows the growth rate in developing countries.[2]

Oil Exporting countries		Non-oil developing countries
1	2*	*3
Average		
1967-72	9.0	5.9
1973	10.7	6.7
1974	8.0	5.4
1975	—0.3	4.4
1976	12.1	5.4
1977	6.2	4.9
1978	2.7	5.0
1979	2.9	4.6
1980	2.2	4.9

* Column 2 and 3 figures show change from previous year beginning with 1974 and onwards

[2] (Source : Economic Survey for 1980.81 World Economic Outlook May 1980 Table 2 and 3)

The GNP in 1979-80 at 1970-71 prices was -4.5 per cent, while the net national product was -4.9 per cent. These negative growth rates, indicating overall poor economic performance were, interalia, caused by infrastructural constraints in the last two years. Due to shortage of diesal in 1979-80, the production of coal and power increased only marginally. while the movement of freight by the railways actually declined. Poor performance in the infrastructure created a near crisis. Lack of power and coal led to a decline in output in key sectors like steel, cement and non-ferrous metals. The performance of the power deteriorated sharply in 1979-80 compared to the previous year. The poor monsoon adversely affected the power situation in the country.

There was a great increase in the gap between actual generation and increased requirement from 10 3 per cent in 1978-79 to 16.1 per cent in 1979-80. Coal production target was 119 million tonnes, but actual production was only 106.3 million tonnes, indicating a shortfall of 11 per cent. The performance of railways was also poor. Shortage of power had a crippling effect on the production of steel and cement. Shortage of these key inputs necesitated imports adding to the import bill. There was also unsatisfactory state of industrial relations.

In 1980-81 top priority was given to these key sectors. Improvement of the infrastructure was recognised as a critical requirement for economic revivul in 1980-81. A special coordination cell was also established to identify problem areas requiring action on a priority basis. The need for clear determination of priorities also from the close inter-realationship of the infrastructure sectors. For exemple, lack of coal was responsible for poor performance of power stations, but coal production was itself adversely affected by power shortage. Lack of railway wagons handicapped delivery of coal to power stations and cement and fertiliser concerns. Efforts were directed at ensuring coal supplies to power stations and other industrial centres. Production in the supplies of these critical inputs was sought to be improved in 1980-81.

The inflation rise in prices, particularly during the last two years pose problems for economic growth. The available statistical evidence suggests that rising prices discourage economic development and rapid inflation seriously restricts economic growth. For instance, the acute inflationary situation in 1979-80 produced a negative growth rate in GNP of 4.5 per cent. Industrial production declined by 1.4 per cent. World Economic Output depicts a severe worldwide problem of inflation for 1980, a general pattern of slow growth of output, recessionary tendencies in the industrial world a sharp slump in the volume of world trade and a sudden and major worsening of the distribution of balances on external current account. Thus inflation renders the process of growth more difficult.

Another impact of inflation is that it is a socially costly and economically wasteful means of augmenting investment. Inflation affects investment and saving adversely. The real content of investment is reduced as investment in financial terms is realized only at higher prices. The following Table shows that investment at 1948 49 prices showed a much

(Rs. crores)

	Estimates of Aggregate Investment		Average Annual Income	
	At current prices	At 1948-49 price	At current prices	At 1948-49 prices
1951-52 — 55-56	3,551	3555	21.7	24.5
1956-57 — 60-61	7,301	6804	14.4	10.7
1961-62 — 65-66	10,843	8786	9.7	4.2

smaller increase in the third plan than in the first two :[3]

It leads to inequitable shifts in incomes with losses to low and fixed income groups and windfall profits to rich people. Today the number of persons below the poverty line in India is about 50 per cent. The benefits of planning have not reached the masses adequately. It seriously affects habits of voluntary saying, for persons of low incomes have to spend their income on essential commodities whose prices have risen. Inflation diverts savings into non-profitable investments like gold, silver, land, etc. Economic motivation suffers, because inflation impairs general morale. It creates difficulties for government as it affects budgetary calculations and Government expenditure on wages, salaries, etc. rises. Inflation has created budgetary deficits both at the Centre and in the states. Diversion of funds for administrative and other unproductive expenditure reduces funds for development.

Inflation has adverse effects on the balance of payments. In an Inflationary situation, exports suffer as rising prices divert home demand for exportable commodities. Foreign exchange receipts fall and the country's capacity to import declines. Inflation makes it difficult for a country to attract foreign investment, which a developing country needs for supplementing its resources for development.

Debt service ratios representing payments as percentage of exports of goods and services for non-oil developing countries rose from 8 9 in 1973 to 11.1 in 1980. For India, the figures for 1978 is 9.4. Inflation raises debt service charges.[4]

In conclusion, it may be said that we have to live with inflation. Various steps, viz., proper management of public sector finances, the prompt execution of projects, firmness in moderating wage and price demands from workers and farmers, stimulating import substitution investment can only succeed in reducing the rate of inflation. We can neither attain price stability of 1975 to 1979 nor can we limit inflafion to a low rate of 3 to 4 per cent a year as was attained between 1967 and1972. This is mainly because the influence of world prices is transmitted through imports on our economy. Inflation in India is also affected by foreign and domestic factors.

Our capacity to control domestic factors is limited because of the transmission of world prices to our economy largely because imports of oil and oilproducts account for 45 per cent of the value of our imports. A severe worldwide problem of inflation is depicted in World Economic Outlook and inflation rate of 9½ per cent for 1980 and 8½ per cent for 1981 is projected. Inflation rate in India is now about 7.8 as against 10.5 for world as a whole. So we have to live with inflation. We can reduce the rate by a few percentage points. We cannot achieve zero rate of inflation in the near future.

NABARD TO FOSTER RURAL DEVELOPMENT

On November 30, another big step was taken in direction of providing credit facilities to the farmers and rural artisans to accelerate the pace of rural development. The Lok Sabha passed a Bill providing for the establishment of a National Bank for Agriculture and Rural Development. Explaining the objectives of the new bank, the Finance Minister, Mr. R. Venkataraman, said that it would provide credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in rural areas with a view to promoting integrated rural development. The National Bank for Agriculture and Rural Development is being set up as a statutory corporation to be owned by Government and the Reserve Bank of India jointly. The entire undertaking of the Agricultural Refinance and Development Corporation shall be transferred to and vest in the new bank.

The National Bank shall provide short term financial assistance for promoting agriculture and rural development to State Co-operative Banks, Regional Rural Banks or any financial institution approved by Reserve Bank of India in this behalf. Similarly, the bank will provide refinance to various banks for their term lending operations for the purposes of agriculture and rural development.

Banks Implement 20-Point Programme

The banking system has a vital role to play in the implementation of the 20-Point Programme by providing financial assistance to the beneficiaries of the programme, who belong to the weaker sections. Keeping this in view, steps have been taken to direct the efforts of the banks towards increasingly meeting the credit requirements of the weaker sections within the priority sectors. Specific steps taken in this direction include :

1. The beneficiaries of the 20-Point Programme have been identified within the priority sectors.

2. The concept of 'weaker section' has been introduced in two sectors viz, agriculture and small industry. As a consequence of this, the credit requirements of the rural poor will now be met by the banks.

3. The banks have set a target of increasing the share of priority sectors to 40 per cent of their agregate credit by 1985. Agriculture has to receive at least 40 per cent of this enlarged priority sector credit.

4. Guidelines have been issued to the banks on the ways and means of rendering assistance to the beneficiaries of the 20-Point Programme.

---

[3] R.B.I. Bulletin, June, 1967, p.762.

[4] Source: World Economic Outlook Table 25 World Bank Report 1980, Table 4.

Factors Fueling Inflation in India

By **B. Kumar** [*]

Dr. Kumar's paper on inflation, which focusses on the government's monetary policy, highlights the fact that policy measures have not quite succeeded in redressing the imbalances between demand and supply largely because of administrative shortcomings and the existence of the sector of unaccounted money. He therefore pleads for the adoption of a new approach which aims at putting through an effective policy.

INFLATION has been a familiar feature of the Indian economy since last four decades. The people have learnt to live with inflation. It was during the forties that India experienced a price rise in the wake of the Second World War. Since then, India has been in the grip of inflation save for a few brief spells of price stability. Each time, the country felt a fresh wave of inflation which exceeded the previous level both in severity and in its dimensions. Table 1 depicts the pricing pattern in the country on the basis of shifting base lines.

TABLE 1

PRICE INDICES WITH DIFFERENT BASE YEARS

(average prices with base)

Year	1952-53	1961-62	1970-71
1947-48	81.1	664.8	35.8
1950-61	107.7	86.1	47.5
1955-56	92.5	73.9	40.8
1960-61	124.9	99.8	55.1
1965-66	165.0	131.6	72.7
1968-69	210.2	165.4	91.3
1973-74	318.0	254.2	139.7
1974-75	391.6	313.0	174.9
1975-76	378.8	302.8	173.0
1976-77	388.7	310.7	176.6
1977-78	421.0	336.5	185.8
1978-79	421.0	336.6	185.8
1979-80	493.0	394.1	217.6
1980-81*	574.3	459.1	253.5

* upto Dec.

Source: Compiled and calculated from various price indices

Table 1 reveals the pricing behaviour since 1947-48. The overall increase in the price indices has lost its relevance and perspective due to the shift in the base year of the price indices. The table reflects that the prices have registered a six time increase since 1947-48. The trend of prices reveals a wave like formation of prices. The periods of 1947-51, 1964-67, 1972-75, 1979 and up to now can be described as the phases of high tides in which the rates of inflation were running in two digits. The seventies can be described as an era of inflation. The Fourth Plan period witnessed a period of violent price rice in which the price level rose by 55 per cent within a span of 24 months. The latter part of the Fifth Plan period was relatively a period of stable prices.

The present phase of the upward trend in the prices began in March 1979. During 1979-80, the prices registered a rise of 21.4 per cent while during 1980-81, there was some deceleration in prices when an overall price rise of 15 per cent was recorded. Inspite of a brief spell of respite, the price spiral has again assumed an alarming proportion. In July 1981, the price index (whalesale) has touched a record level of 286 representing nearly 200 per cent increase in prices during last decade. During last two years (ending June. 1981) the cumulative rise in wholesale prices has been of the order of 37.2 per cent. The rupee has lost its value by 84 per cent on the basis of 1952-53 prices, 74 per cent on the basis of 1960-61 prices and 61 per cent on the basis of 1979-80 prices.

II

There is no dispute about the high rate of inflation in the country. The evil effects of inflation are countless. It has distorted the growth pattern of the economy. Inflation is pushing more and more people below the poverty line. The percentage of people living below the poverty line has increased from 30 per cent in 1973-74 to 51 per cent in 1977-78. However, there is a divergence of views regarding the nature, causes and the remedy of inflation.

Now, it is a well-established fact that the price-rise in India is a complex phenomenon. There are a large number of factors activating the prices. These factors can be identified as functional and inflationary, general, selective and sectoral, short and long term, visible and invisible forces and real and psychological imperatives. Functional factors like increase in the growth rate and consumption level can account for not more than 3—4 per cent of the price rise. But the inflationary forces generated by the increase in money supply, deficit finance, flow of unaccounted money have exerted heavy pressure on the price level.

TABLE - 2

KEY FACTORS IN PRICE INCREASE

Factors	1974-75	1978-79	1979-80	1980-81
1. GNP 1970-71 priccs	1.2	5.9	— 4.5	6.5
2. Agricultural Prod.	—3.2	3.4	—15.5	19.0
3. Foodgrains Prod.	—4.6	4.3	—17.5	21.0
4. Industrial ,,	3.2	7.6	— 1.4	1.2
5. Electricity generat.	5.2	11.2	2.1	3.8
6. Wholesale prices	10.1	4.6	21.4	15.0
7. Money stock M3	10.9	29.9	17.8	15.0
8. Imports	52.9	13.2	29.1	50.57
9. Exports	39.9	5.9	12.2	3.0
10. Foreign reserve	5.1	16.0	—1.1	—10.4

Sources : Economic Survey & RBI Annual Reports

---

[*] Dr. B. Kumar is Reader in R.S.P. College, Jharia, Bihar.

The factors operating behind the price line can be conveniently grouped under five categories namely (i) money stock, (ii) deficit financing (iii) fall in GNP or production of agricultural commodities, (iv) black money operation and (v) speculative and hoarding tendencies. We list certain key factors having acceleration or deceleration effect on the price level in Table 2.

Even the different Government agencies held divergent views regarding the nature and causes of the present price rise. The Finance Minister believes that "normally, the seasonal rise upto mid September is followed by a declining trend which lasts for three months or more".[1] During March 1979 to March 1980 the price level rose by 20 per cent. This rise was attributed to the expansionary fiscal policy and a high rate of monetary expansion in 1978-79" which had created conditions favourable to a rise in prices. The economy was beset by supply constraints not only in agriculture but also in a number of key infrastructure sectors like power and transport.[2] In the *Economic Survey* of 1980-81, it was emphasised that the price rise since March 1979 was caused by a combination of factors, namely, "increase in the prices of imports, especially crude and petroleum products, and consequent increase in the prices of certain goods and services, upward adjustments in administered prices, supply constraints caused by the inadequacies of the infrastructure and growing liquidity in the system."[3]

On the other hand, the RBI has asserted that "some identifiable factors behind the increase in prices of these commodities consist of administrative decisions or fiscal policy actions."[4] During 1979-80, seven phases of the price movement, in which the longest spell (14 weeks) with highest rise (9.4 per cent) was recorded during June 30 to October 1979, were identified.

The Reserve Bank had observed that "the most important influence emanated from external or imported factors rather than from the widespread decline in the domestic economic activity."[5] It has viewed the present price-rise in the background of the inflation of 1973-74. It has stressed: "It may be of some interest to compare the current price situation with the inflationary experience of 1973-74 (July-June) when the wholesale prices index rose by 30.2 per cent. At that time, food scarcity was acute following a series of poor *monsoons*. Inspite of substantial imports of foodgrains, availability was limited."[6] The contribution of various items in the price rise was as follows:

1. Primary articles	29 per cent against 46 per cent in 1973-74
2. Fuel, Power etc.	17 per cent against 17 per cent in 1973-74
3. Manufactured products	53 per cent against 37 per cent in 1973-74

Massive Outlay for Anti-Poverty Programme

THE Centre has provided Rs. 2,542 crores for rural reconstruction in the Sixth Plan. This is 350 per cent more than the Central sector outlay in the Fifth Plan. The major thrust of the Sixth Plan is on strengthening the socio-economic infrastructure of development in the rural areas and alleviating rural poverty.

Three broad categories of programmes have been identified for accelerated rural development. They are (a) resource and income development programmes for the rural poor like integrated rural development programme (b) special area development programme like drought prone area programme and desert development programme and (c) works programme for creation of supplementary employment opportunities.

The outlay on Integrated Rural Development programme goes up to Rs. 1,500 crores against Rs. 174.45 crores provided for the SFDA Programme in the Fifth Plan. The outlay for Droghut Prone Area Programme (DPAP), similarly, has been increased from Rs. 181.50 crores in the Fifth Plan to Rs. 350 crores in the Sixth Plan. For Desert Development Programme (DDP) also the outlay has been increased by almost 16 times, from Rs. 6.10 crores in the Fifth Plan to Rs. 100 crores in the Sixth Plan.

The Minimum Needs Programme first introduced in the Fifth Plan has also been amplified in the Sixth Plan and as against an outlay of Rs. 2,607 crores only for the Minimum Needs Programme in the Fifth Plan, a provision of Rs. 5,807 crores has been made in the Sixth Plan. The Programme is essentially an investment for human resource development. It underlines the urgency for providing social services according to nationally acceptable norms within a time bound programme.

Outlays in the Sixth Plan for rural water supply and rural electrification and also rural roads are much higher than those proposed in the mid-term plan (1978-83). The outlay for rural water supply is Rs. 1407 crores compared to Rs. 1,388 crores in the mid-term plan. For rural electrification, the provision is Rs. 301 crores as against Rs. 243 crores in the mid-term plan. The outlay for rural roads is Rs. 1,165 crores, Rs. 365 crores more than the provision in the mid-term Plan.

III

In understanding the nature of the agents of inflation in our country (for formulating a suitable anti-inflationary policy frame) it is worthwhile to spotlight our experiences on the price front.

1. The price level in India has, since the Second World War, a basically inflationary bias due to the inherent expansionary nature of the economy.

2. The price situation is cyclical. The cyclical pattern is implicit in the analysis of the phases of price level during various plan periods.

3. The high rate of monetary expansion has completely outpaced the functional or growth factors. The money stock has risen at an average rate of 15 per cent whereas the growth rate was not more than 3.5 per cent. During Fifth Plan Period (1974-78) the money stock increased by 58 per cent against 20.7 per cent rise in the GNP.

4. The inter-play of monetary factors activates prices at several critical points. The budgetary deficit since 1977-78 amounted to Rs. 1,016 crores, 631 crores Rs. 2,874 crores and Rs. 1,938 crores (estimated) respectively. Factors like currency components, reserve money, RBIs total credit, net credit to the Government sectors have as immediate impact on the price movement in which the contribution of any single factor is difficult to identify.

5. The fluctuations in agricultural production generates widespread effect on the prices. The sharp fall of production in foodgrains, from 131.90 million tonnes in 1978-79 to 109 million tonnes in 1979-80 created an imbalance in the demand and supply position. The buffer stock and imports could not prevent the rise in prices or provide a cushion to the prices, to the expected level.

6. The policy of administrative prices has created a situation of 'cost push inflation'. Sharp increases in the prices of coal, crude and petroleum products, steel and other basic commodities have led to a cost spiral in the secondary sector.

7. The price situation in the country is delicately balanced. Due to the inherent deficiency in the structure of the economy and supply of mass consumption articles, the chronic imbalances in the demand and supply position in one sector or other is persisting. A little rise in any one critical factor could to cause a disproportionate avalanche.

8. The price situation has assumed alarming proportions. The consumption industries are basically dominated by the private sector which is guided by the profit motive. Speculative and hoarding activities have increased. In the case of any real or threatened crisis, economic or political, regional or national or international, the psychology of scarcity triggers a price spurt. The low level of business morality and corruption at the political or administrative levels have added to the already difficult situation.

9. In the event of credit curbs and scarcity of funds (during current year there was a fall in money supply rate) the business community draws heavily from the unaccounted money sector causing a larger flow of funds in the black money sector. The cost of credit in the unaccounted sector is normally high.

10. The time lag in monetary investment and increase in the real income has widened during the latter part of the planning era. The Fourth and Fifth Plans actual outlays exceeded the plan provisions. But the real growth rate lagged behind the target. This has created excessive flow of funds in the market. All the plans have been virtually started in times of high inflation. The business ventures established during inflationary days are in a state of overcapitalisation. Their cost of proproduction is relatively high due to inflated cost of assets. The reversal of the situation needs drastic corrective measures.

IV

The continuing problem of inflation can be linked to the inherent weaknesses and deficiencies of the Government's policy. The basic faults in the policy approach or frame can be spotlighted as follows:

1. There is a lack of continuity in the price policy of the Government. Although the general approach of the Government is to maintain price stability, the measures taken are not clearly spelt out.

2. The Government considers the price problem in a short term perspective. The treatment of the various segments of inflation in isolation and the application of selective measures have not been of much help. The effects of such policies have always been short lived.

3. Usually, the rise in prices during any particular period is correlated to the rise in the money supply or fall in the production level during the same period. But any change takes some time to produce reactions. Hence, a better perspective can be obtained by linking the various factors with the price level after a gap of 6 to 12 months. Similarly, the various anti price rise measures produce effects only after a certain time lag.

4. Excessive reliance is placed on the monetary and credit policy for curbing the inflation. But the limitations of such a policy are obvious. The impact of monetary and credit policy in India is severally restricted by the structural and operational pattern of the money market. The credit policy can affect the flow of funds to the private commercial sector which accounts for only one third of the total monetary resources. It fails to reach the flow of credit to the Government of foreign sectors.

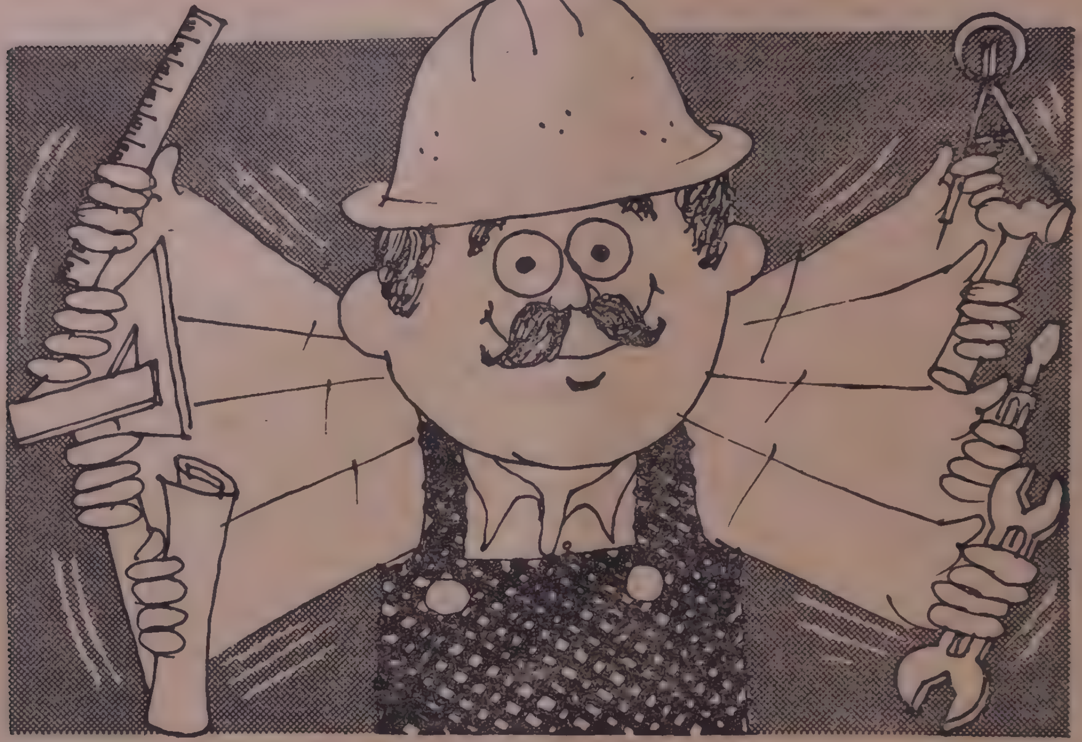
5. It is strange that excessive recourse to the monetary and credit policy is made when more direct and effective weapons like stipulating monetary targets are available. When the leading central banks of Europe have switched over to a system of monetary targetting the monetary authorities in India are still running in traditional grooves.

6. When the RBI has found a similarity between the present price rise and the inflation of 1973-74, it is strange that effective and unconventional measures like wage freeze, impounding of additional wages have not been used.

REFERENCES

1. Economic Survey, 1978-79 p. 19
2. Economic Survey, 1979-80 p. 23
3. Economic Survey, 1980-81 p. 26
4. RBI's Annual Report, 1979-79 p. 24
5. Ibid, 1979-80 p. 17
6. Ibid, p. 19

Get more power from your man-power



LIC's
GROUP INSURANCE SCHEME

The Scheme can ensure higher productivity by enhancing the employees' morale

LIC's Group Insurance Scheme provides insurance protection to a large number of employees at a minimum cost. The Scheme ensures the payment of adequate and pre-determined sum to the employee's family in the event of his premature death.

Benefits:

LIC's Group Insurance Scheme has many built-in advantages:

- Premiums are treated as tax deductible expenses
- Possibility of premium reduction in succeeding years
- Reduced cost of life-cover per person

The Group Insurance Scheme which can be tailor-made to suit your requirements, has been adopted by many farsighted employers.

This Scheme can be designed, if so desired, to replace the statutory E.D.L.I. Scheme.

Check with the nearest LIC office, or write to:

The G & S Department, Life Insurance Corporation of India, Central Office,
'Yogakshema', Jeevan Bima Marg,
Bombay 400 021

RADEUS/LIC/G-8/80

Life Insurance Corporation of India

Inflation and the India's Balance of Trade

By **O. P. Maurya** *

Compared to exotic remedies bandied about by economists to control inflation, home-spun remedies seem to be more appropriate to the situation prevailing in India today. As the author rightly points out, in this article, there is need for adopting a series of measures which include reduced dependence on imported oil, increased production of commodities in short supply like steel, fertilisers, cement, edible oils and so on and prevention of excessive increases in wages and salaries in order to bring down the rate of price-rise.

INFLATION is not only a modern phenomenon. It is well known that inflation was experienced in primitive times in one form or the other. Here we propose to discuss modern experience of inflation in relation to price rise and balance of trade in the country. To begin with, let us define the term inflation in simple words. Inflation may be defined as a perpetual tendency of prices to rise.

Price-rise is generally associated with increase in money supply. Money supply is a complex concept compounded of the quantity of money and its velocity. Velocity of the circulation of money may change either on account of short period adjustment frictions or in response to longer-run developments in the economic system. Rise in the prices of goods and services is greatly influenced by an excess-demand factor. Since in the case of excess demand inflation, prices are so chargeable as to make the value of supply of goods and services equal to money demand, percentage prices changes are generally equal to the magnitude of excess demand expressed as a proportion of supply of output in the market.

This means that the price ratio must change in favour of the sectoral goods in which excess demand is greater. The wholesale price of several groups of consumable items in demand represents true position of price situation at a certain point of time. According to the Reserve Bank's Report for the year 1980-81, wholesale prices increased by 18 per cent close on the heels of the 17 per cent rise in the previous year. Table-1 shows the extent of price rise in India during the years 1979-80 and 1980-81.

Data presented in Table-1 shows that of all the four groups of commodities, primary articles group showed a spectacular rise in prices to the tune of 45.7 per cent in 1980-81 as against 29.5 per cent in 1979-80. A notable feature which this table presents is that there has been a quantitative difference in prices of fuel, power, light and lubricants group and manufactured products group in 1980-81 as against 1979-80.

The speed of inflation depends on the rate of increase in the flow of money expenditure in relation to the rate of change in the flow of output. If output is constant, inflation depends on the rate of increase in the flow of money expenditure. On the assumption that prices are flexible, the speed of inflation must be identically equal to the rate of increase in money expenditure in relation to that of output. Over and above, the rate of increase in money expenditure is not an independent variable; it is governed by the various socio-economic pressures generated by the operative stabilisers and destabilisers.

Inflation, to a great extent, is greatly influenced by the income of the entrepreneurs. Changes in money incomes of the entrepreneurs are governed by increases in prices and direct cost. In the more inflationary sector, the rise in price must be greater than the rise in direct costs because the latter is determined by mainly the rise in wages of different groups of employees engaged in the production of goods in demand. This means that money income of the entrepreneurs in the more inflationary sector increases more than in proportion to the cost of production of the goods produced in this sector.

Entrepreneurs' real income must be greater than in the original position even if their consumption is confined to the relatively more expensive goods, which can hardly ever be the case. The position of the entrepreneurs in the sector which is less inflationary is more complicated. The existence of excess demand in the home market and the consequent rise in prices of home produced goods may make the entrepreneurs desire to expand output. If this desire is translated into attempts to purchase materials, machineries and tools of foreign origin, we have yet another increase in the demand for imports.

So long as the national output remains constant, the quantities of imported materials currently required must be unchanged and any increase in imports of these commodities must result in an increase in their stocks. In a situation like this inflation tends to cause an increase in the demand for imports. Unfortunately, in recent years our demand for foreign manufactured goods has considerably been more than the international demand for the Indian produced goods. Table-2 shows India's balance of trade.

Data presented in Table-2 shows that India's foreign trade which showed a surplus of Rs. 72 crores in 1976-77 has deteriorated and the deficit has mounted to a staggering level at Rs. 5, 436 crores in 1980-81. In fact, the doubling of the imported oil prices (petroleum crude and edible oils) has adversly affected our balance of trade. According to the G.A.T.T. annual report on international trade for 1980-81, the value of world trade reached $ 2, 000 billion in 1980, an

---

*The views expressed by Dr. Maurya in this paper are not necessarily those of the Directorate General of Employment and Training, Ministry of Labour to which the author, who is Assistant Director of Employment Exchanges, belongs.

TABLE-1

EXTENT OF PRICE RISE IN INDIA

Groups	Weight	Wholesale Price Indices			Increases over the year				Weighted contribution over the year	
		June ended 1979	June ended 1980	June ended 1981	1979-80		1980-81			
					Actual	Per cent	Actual	Per cent	1979-80	1980-81
1	2	3	4	5	6	7	8	9	10	11
1. All Commodities	1000.00	204.1	251.4	279.1	+47.3	+23.2	+27.7	+11.0	100.0	100.0
2. Primary articles	416.67	195.6	229.1	259.4	+33.5	+17.1	+30.3	+13.2	+29.5	+45.7
3. Fuel, Power, light, and lubricants	84.59	255.0	352.8	400.5	+97.8	+38.4	+47.7	+13.5	+17.4	+14.7
4. Manufactured products	498.74	202.5	252.9	274.9	+50.4	+24.9	+22.0	+ 8.7	+53.1	+39.6

Source: Data obtained from the Reserve Bank of India, Bulletin, June, 1981.

increase of only 20 per cent compared with a 26 per cent increase in 1979, mainly because of inflation and the dollar's appreciation in terms of other currencies. The report further says that oil exporting countries were the biggest gainers from the increrse in the dollar's value because petroleum prices rose by 75 per cent, well above the 14 per cent increase for other primary products and the 11 per cent increase for manufactured goods exports.

Recently, the International Monetary Fund (IMF) has approved a loan to our country of SDR 5 billion, about 5.7 billion for coping with her current account balance-of-payments deficit. In order to check inflation, there is an urgent need to explore more indigenous oil and natural gas and to economise use of available energy at our end. Our country must create more open economic, price and trade policies and must resort to import substitution in fertilizers, edible oil, steel,cement, etc. There is also an urgent need to make up the lag in investment in industries of prime importance. Reasonable check on increase in income and wages, unless these are linked with cost of living and productivity, is also necessary.

TABLE-2

INDIA'S BALANCE OF TRADE

(Rs. in crores)

Year	Import	Export	Balance of Trade
1970-71	1,634	1,535	— 99
1974-75	4,519	3,329	— 1190
1975-76	5,265	4,043	— 1222
1976-77	5,074	5,146	+ 72
1977-78	6,025	5,404	— 621
1978-79	6,814	5,726	— 1088
1979-80	8,908	6,459	— 2449
1980-81	12,106	6,670	— 5436

Source: Data compiled from various Reports of the Reserve Bank of India.

INDIA—THE TURBULENT HALF-DECADE

BY K. N. SUBRAHMANYA

(200 pages: Price Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first years record.

SOME OPINIONS

Subrahmanya's strong point is that he writes as an observer and not as a protagonist of this or that party or group. —*Commerce*

His style is unostentatious, his approach dispassionate and his logic forcible. —*Capital*

He has stated certain unpalatable facts. —*Patriot*

There is much to ponder in this little book. —*The Mail*

The book gives an in-depth and impartial analysis of recent political events. —*P. I. B. Nayar, Journalist, London*

You have made many thought-provoking points.—*N. A. Palkhivala*

Since long, we have not come across such an objective review of the Indian political scene.

—*Dr. Susheela Gosalia, Author, Mannheim, West Germany.*

Copies can be had from: **Southern Economist,**
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

Inflation Control and Indexation

By **H. Robert Heller** *

With inflation emerging as a global phenomenon, the interest of economic policy makers is focussed on how to insulate the affected sections from its impact. The much talked-about remedy, indexation, has been tried in the Latin American countries with results which are not quite encouraging. In this article, the author, an internationally-known economist, analyses the pros and cons of indexation and concludes that it cannot be a substitute for measures to deal with the real causes of inflation.

THE 1970's saw the advent of inflation on a global scale. During the decade, average consumer prices around the world almost tripled. Only one single country in the non-communist world was able to avoid double-digit inflation: Germany. For the first time in modern history, inflation became a truly global phenomenon. The question before us is whether we should attempt to control this pervasive inflation or attempt to administer it by indexation. It is useful to distinguish among three key causes of inflationary pressures: excessive increases in demand, shortfalls in supply, and adverse changes in the terms of trade.

The available evidence indicates that excessive demand, fueled by too rapid monetary expansion, was the central factor causing the pervasive inflationary pressures. The world money supply approximately tripled during the decade, and double-digit monetary expansion rates were registered in every single country for which data are available. Two factors were important contributors to that inflationary monetary expansion: excessive government deficits and the rapid increase in international liquidity. In every major country, record government deficits were registered—and in all too many cases they were financed by resorting to the printing press. At the same time, international liquidity expanded rapidly. Total liquid reserves of central banks increased from less than $100 billion at the end of 1970 to about $ 500 billion at the end of 1980 if one holds the gold price constant at 35 SDRs per ounce. With gold at market prices, international liquidity would have amounted to almost one trillion dollars in 1980.

Against these magnitudes the other causes of inflation, such as shortfalls in supply and changes in the terms of trade, were of minor importance in global terms. This is not to say that they did not play a significant role in some countries. Undoubtedly, the slowdown in productivity growth in the United States and the cost increases suffered by the oil-importing countries—to cite but two examples—enhanced inflationary pressures as well. The pervasiveness of the inflation was also enhanced by the fact that, for the first time, we have a truly integrated world trade and financial system. While this liberal world economic order has helped to lay the basis for ever-increasing progress for virtually all countries, it has also increased their interdependence and, therefore, their susceptibility to undesirable economic forces emanating from abroad.

The consequences of inflation are many and varied—and they tend to increase rapidly as the pace of inflation accelerates. Initially, inflation erodes the usefulness of money as a share of value, causing long-term capital markets to disappear. When inflation accelerates, money also loses its function as a unit of account and results in the introduction of various indexation schemes—the main topic of my remarks. In hyperinflations, the acceptability of money as a means of payment is jeopardized as well and people will resort to barter trade or *ad hoc* money substitutes.

While it is sometimes argued that a perfectly anticipated inflation has no ill effects, it is in the very nature of inflation that it is varied and therefore difficult to anticipate. I know of no forecaster who would stake his reputation on the accuracy of a three-year inflation forecast, yet businessmen must make investment decisions for much longer time horizons than that. Inflation increases the uncertainty surrounding future investment decisions to such an extent that the entire investment process is severely hampered. Similar considerations pertain to long-term saving decisions. In inflationary periods, the long-term market will cease to function properly and many even cease to exist altogether.

Inflation causes unpredictable changes in the distribution of income and wealth and has particularly dire consequences for retired people dependent on a fixed pension or saved financial assets. Inflation also distorts tax payments and government expenditures in ways that can make a mockery of the original legislative intent. The efficiency of resource allocation is severely disturbed by inflation because incentives are distorted and decisions are taken that reflect the desire to profit from the inflationary distortion rather than the productivity of economic resources.

Nevertheless, reducing or eliminating inflation is connected with considerable costs–especially in the short term. As an excessive monetary expansion is brough under control, a liquidity shortage tends to develop that will rapidly be reflected in a credit crunch. From there, it is but one step to a general economic slowdown and perhaps even a recession to cap off the stabilization crisis.

---

* Mr. H. Robert Heller is Vice President for International Economics, Bank of America NT&SA San Francisco, California.

Text of the speech delivered at the 19th World Management Congress Sponsored by the World Management Council (CIOS) and the Peruvian Business Administration, Institute (IPAE) on November 16-19, 1981.

It is understandable that much ingenuity has gone into devising schemes to make it easier to live with inflation by trying to eliminate some of its undesirable side effects. Other efforts have focused on reducing the cost of slowing down inflation, and thereby easing the pain threshold that has to be overcome initially. Most of these schemes involve the indexation or monetary correction of the entire economy or certain selected sectors. The key question to be addressed is whether we should control inflation or administer it. Indexation is one important way in which one can "administer" an inflation. We will therefore have to determine whether indexation makes it easier to live with inflation and whether it makes it easier to ultimately eliminate inflation. Or, will indexation make inflation more virulent, help to spread it throughout the economy, and accelerate its pace?

The chioce between controlling inflation or administering it by indexation depends on the cost and benefits attendant to each alternative. Thus, it is basically an empirical question. Unfortunately, no two situations are ever exactly alike and economics is not a science that lends itself to laboratory experiments. However, no one could deny that we have a rich enough experience with inflation and indexation to arrive at certain conclusions.

Indexation has been with us for a long time. In fact, indexation predates the founding of the United States. In colonial Massachusetts, the value of paper money in the form of bills of public credit was limited to the price of silver in London. As the price of silver rose more rapidly than the general price level during the 1740's, many debtors found it difficult to repay their obligations. To provide a measure of relief, the colony in 1747 enacted a law that defined the value of public credit money in terms of provisions and other necessities. It is interesting to note that this indexation was designed to protect against an excessive appreciation of money — hardly the problem faced by us today.

The first choice to be faced in the design of an indexation scheme is the selection of an appropriate reference point. No one will be surprised to see the consumer or wholesale price index, or the value of foreign exchange and precious metals used as a numeraire. However, more exotic indicators, such as the value of orange groves, the price of rubber and cement, and even the price of railroad tickets in France have been utilized as well.

Most indexation schemes rely on historical value of the reference point, and by necessity, they will lag actual events by the time that they get reported. In times of accelerating inflation, this may be a desirable feature, as it slows down the inflationary spiral. But the lagging also tends to translate past inflation into future inflation and therefore make a reduction of inflation more difficult to achieve. A further important consideration is whether indexation makes it more diffiult or easier to "turn the corner" and to change the path of inflation from upward to downward. Because indexation relies on *past* inflation values and builds them into current and future inflation rates, it stands to reason that it becomes more difficult to change the path of inflation. I believe that this is a very fundamental point that is frequently ignored.

Indexation may slow down an accelerating inflation, but a key shortcoming is that it makes the process of turning an increasing inflation into a decreasing inflation more difficult. Furthermore, indexation tends to slow down the progress that can be made in reducing and eventually eliminating inflation because it continually builds the high inflation rates of the past into the current price structure.

There are also considerable administrative costs associated with any indexation scheme as two separate sets of books have to be kept for most purposes. Not only are these procedures cumbersome, but they utilize economic resources that could be used in productive endeavors instead. Consequently, growth is retarded and any additional costs incurred are passed on in the form of higher prices and will therefore contribute further to inflationary pressures.

While some countries have pervasive indexation arrangements, I know of no instance of truly comprehensive indexation of all sectors of the economy. While advocates of indexation claim that it eliminates distributional inequities, it is clear that the non-indexed sectors will have to absorb greater shocks than they would have to, in the absence of indexation. Take the example of a businessman or farmer whose wage cost, prices, taxes, and financial obligations are all indexed. The one crucial item that no one has ever proposed to index are his profits. Consequently, he has lost all flexibility and room for intelligent decision making. His profits will be at the mercy of the index formula selected for the various other items and may mushroom or dwindle independent of his own actions.

Truly comprehensive indexation would essentially freeze all relative prices and the entire income distribution. By this the economy would be put into a straight jacket without hope for adjustment or ultimate improvement in performance. One also needs to consider *why* the indexation was introduced in the first place. If the cause of the inflation that brought forth the comprehensive indexation was a shortfall in supply, it is clear that comprehensive indexation is bound to fail. No indexation scheme can increase the supply of resources by itself and the indexation of the various excessive claims to the national product will perpetuate the inflationary pressures.

Similarly, if the indexation scheme is designed to protect against an adverse shift of the terms of trade, an explosive situation will result. For instance, there is simply no indexation scheme that could have protected all economic agents in an oil-importing country from the consequences of the oil price increases. This leaves excess demand inflation as the one type of inflation where comprehensive indexation may be able to preserve relative income shares. But as I pointed out previously, during periods of declining inflation, the indexation scheme will preserve the claims existing during the base period. It is difficult to see how comprehensive indexation would permit any reduction in incomes below that of the previous period. But if incomes are not to fall, the existing excess demand pressures cannot be reduced either. One must conclude that in an economy with comprehensive indexation any attempt to slow down the inflationary spiral is bound to fail. Hyperinflation will inevitably result.

This leaves partial indexation to be considered. One of the key arguments advanced in favour of indexation is that it eliminates distributional inequities. Clearly, no partial indexation scheme can lay claim to this promise. Some sectors will be protected against an erosion of their relative position, but this must be at the expense of the non-indexed sectors. By this, two separate groups of economic agents are created: one group is more favoured than the other and distributional inequities may actually increase.

Selective indexation may increase the growth of the indexed sector. If, for instance, holders of housing bonds are compensated for any inflationary erosion of their bonds, it stands to reason that more funds will flow into the housing industry and that this sector may therefore prosper. Clearly, good arguments can be made in favour of the indexation of any one sector. Without indexation, capital markets will certainly dry up in periods of sustained inflation. Indexation will preserve the financial sector and make a continuation of the saving and investment process possible. The revival of capital markets in Finland and Brazil after the introduction of indexation gives evidence as to the powerful effects of indexation on financial markets.

An interesting question in this context is whether it is better to allow private parties to freely determine the interest rate to be charged at the beginning of the contracting period according to the expected rate of inflation or whether it is better to index the loans so that borrowers compensate lenders only *after* knowing the actual inflationary experience. The difference amounts to setting the contract in either nominal or real interest rate terms. It is worth pointing out that in the limit both approaches are likely to yield the same result. If the interest rate on an outstanding loan is frequently renegotiated in accordance with the prevailing interest rate, *ex-ante* and *ex-post* interest rate determination becomes a moot point. Current practice of frequently adjusting the interest rate charged on outstanding loans in the Euromarkets results in interest rates that are very similar to those obtainable *via* a process of *ex-post* indexation. It is another example to show that markets, if left free to their own devices, will come up with efficient solutions—even to as complex a problem as to how to compensate for high and variable inflation rates.

Many observers advocate the indexation of the tax structure because government can bring about an increase in the share of national income flowing into its coffers by having inflation push people into higher tax brackets. But let us note that this is a peculiar feature of the progressive income tax. If taxation were proportioned to income instead of progressive, no one would be pushed into higher tax brackets and inflation would not increase the share of national income going to the tax authorities. It is not surprising that no one has seriously advocated an indexation of sales or value-added taxes, because the revenues derived from these taxes are essentially neutral with respect to inflation. To index these taxes would mean to hold the *absolute* dollar value of the government's tax take constant even in inflationary times. To do so may actually be the biggest incentive for government to eliminate inflation as quickly as possible, but it is also a highly unrealistic endeavour.

One cannot leave the topic of indexation without considering at least briefly wage indexation. Because the vast majority of all persons engaged in productive efforts are wage earners, wage indexation amounts to an almost comprehensive indexation of incomes. The immediate question arises why a person working for a wage should be protected against the consequences of a bad harvest or an oil price increase while a small shopkeeper or farmer should not enjoy such a privilege.

Wage indexation also reduces the incentive to work hard to earn salary increases. If an employee receives an annual inflation adjustment of 20 per cent, and a further merit increase of 2 per cent, he cannot easily escape the conclusion that merit has only a very small role to play in wage determination. Work incentives are therefore reduced.

There is no escaping the conclusion that inflation is caused by excessive demands on the social product. Typically, this implies that real wages are too high. Wage indexation tends to perpetuate this state of affairs. Some observers claim that wage indexation helps to avoid unemployment in periods of stabilization efforts. In contrast, others argue that firms are forced in periods of declining business activity to make additional, index determined wage payments that reflect past inflation rates. Consequently, bankruptcies will increase and people will lose their jobs. I know of no study that would help to settle the argument one way or another. One final observation may be in order: if one surveys the world scene one is struck by the observation that indexation is pervasive in those countries that have the highest inflation rates while the countries with the least indexation have the lowest inflation rates.

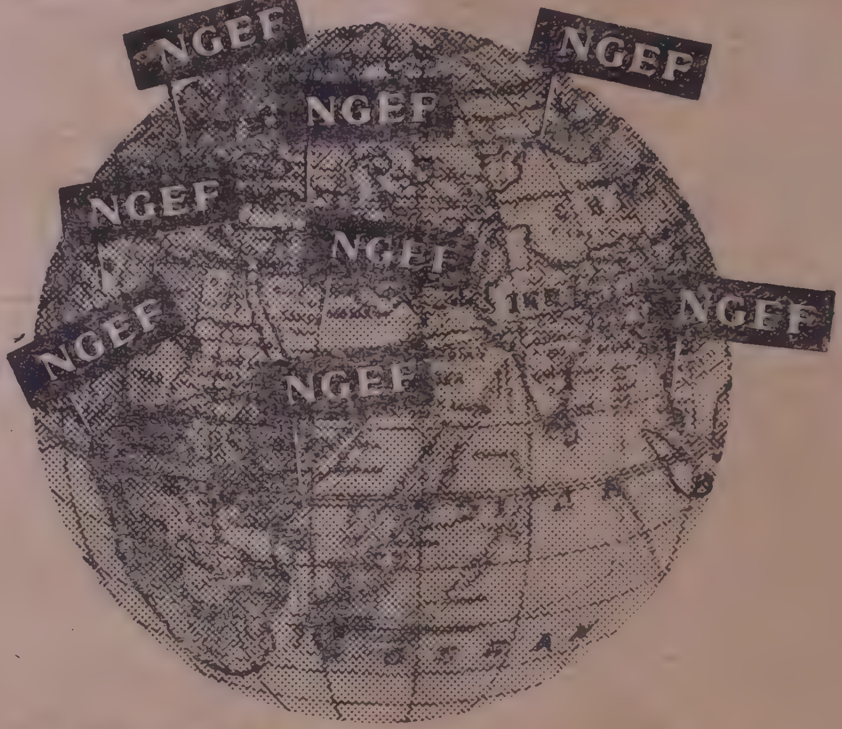
Let me briefly summarize my main conclusions.

One, a reduction in inflation rates is virtually impossible in a fully indexed economy.

Two, partial indexation schemes may offer protection against inflation to that specific sector, but more of the adjustment burden will fall on the other sectors.

Three, indexation does not help to reduce inflation and there is good reason to believe that in many situations, it will accelerate the inflationary process.

Finally, no system of indexation can substitute for a concerted and sustained effort that comes to grips with the economic and social pressures that caused the inflation in the first place. Controlling and ultimately eliminating inflation is the only feasible long-term strategy.



When quality counts NGEF ranks among the world leaders

Discerning buyers the world over accept NGEF equipment as technologically superior, sturdy, reliable and on par with international quality standards. An acceptance that has brought kudos for NGEF and many repeat orders!

NGEF electrical equipment undergo stringent inspection and quality control, meeting international standards like DIN, VDE, BSS, IEC, AISE, etc. Backed by in-house R&D and advanced technological expertise of AEG-TELEFUNKEN, NGEF equipment are continuously improved upon, meeting the sophisticated needs of users at home and abroad

NGEF product range includes:

AC motors — from 0.25 hp to 4500 hp • Special motors for various applications • Brushless Alternators from 8 kVA to 1150 kVA • DC machines upto 250 kW • Distribution transformers upto 1600 kVA, 33 kV • Power and EHV transformers upto 300 MVA, 400 kV • Transformers for special applications • LT Air Circuit Breakers • Minimum Oil Circuit Breakers upto 11 kV, 750 MVA • SF-6 Circuit Breakers from 66 kV to 400 kV • Switchboards & Panels and Switchboard components • Silicon Power Diodes and Thyristors • Power Rectifiers — Air and Watercooled • Thyristor Converters upto 4000 kW • Coupled and Monoblock pumps

NGEF LTD

Factory & Head Office,
Projects & Export Divisions,
P.B No. 3876, Byappanahalli
Bangalore 560 038

Regional Offices:
Bangalore, Bombay, Calcutta and Delhi

Sales Offices:
Ahmedabad, Jabalpur, Kanpur,
Madras and Secunderabad

CHAITRA/NGEF-23481

INDIA'S ECONOMIC POLICY EXPLAINED

The following is the letter of the Finance Minister seeking the extended facility of SDR 5 billion from IMF :

Dear Mr. de Larosiere,

1. The Government of India is currently implementing a set of policies designed to achieve a medium-term adjustment to the structural changes to which the economy has been subjected following, among other things, the sharp deterioration in terms of trade, and to higher oil prices. These policies are an integral part of the Sixth Plan (1980-81-1984-85).

2. After several years of strong economic performance marked by sustained growth in output, internal price stability and a healthier external payments situation, India's economic position suffered a serious setback in 1979 80. Severe drought resulted in a sharp reduction in domestic out-put, agricultural production fell substantially, and the deterioration extended to basic infrastructure and industry as well. The shortfall in supplies affected export performance at a time when the import bill rose sharply. Inflation re-emerged early in 1979 and the balance of payments deteriorated sharply in the second half of that year. Since 1980-81, the economy has been moving upward with recovery in agricultural production and improvement in infrastructure performance. Real GDP has risen strongly, and improved supplies and restrained financial policies have helped to bring about some subsidence in inflation. However, the balance of payments has weakened further to a deficit of SDR 1.6 billion as a result of a further deterioration in the terms of trade, reflecting mainly the full impact of the rise in prices of oil and related products, the earlier disruptions to domestic oil production, weak market demand and restricted access for our exports due to increased protectionism.

3. We expect that India's balance of payments position will be under pressure for several years to come. The details of the adjustment programme adopted by the Government of India are contained in the attached memorandum. In brief, the programme aims to resolve the medium-term balance of payments problems by measures to promote higher export growth and efficient import substitution especially in the energy sector. It will take some time for these measures to show results and in the meantime, the balance of payments will continue to be in deficit. During the adjustment period, the programme provides for measures to increase domestic savings and for appropriate demand management.

4. In support of its programme, and in view of the present and prospective balance of payments need, the Government of India requests an extended arrangement for a period of three years for an amount equivalent to SDR 5 billion.

5. The Government of India believes that the policies to be followed in 1981-82 which are described in the attached memorandum are adequate to achieve the objective of its programme but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of any appropriate measures, consistent with the national policies accepted by our Parliament, in accordance with policies of the Fund on such consultation. In particular, the Government will review with the Fund the progress made in implementing the programme, normally about midway through each year, as part of the ongoing dialogue with the Fund. With respect to the programme for the first year, the Government's will, in conjuction with the next Article IV consultation discussions, consult with the Fund before March 25, 1982 on the Government's measures, which are in line with its declared policies, and have a bearing on the programme and, in particular, on those relating to resource mobilization and exports in view of paragraphs 13, 15 and 18 of the annexed memorandum and reach such understandings with the Fund as are necessary for the purposes of achieving the objectives of the programme.

Yours sincerely,
Sd.
(R. Venkataraman)
Finance Minister.
September 28, 1981.

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431.

THE GOVERNMENT'S STATEMENT OF ECONOMIC POLICIES SUBMITTED TO INTERNATIONAL MONETARY FUND

1. The Indian economy made considerable progress during the second half of the 1970s. During the four years 1975-76 to 1978-79, real economic growth exceeded 6 per cent per annum while price inflation was about 2 per cent per annum. Agricultural expansion accelerated so that food imports were virtually eliminated by 1977-78 and sizable food stocks were accumulated. Industrial growth was also generally satisfactory. Savings rose from about 20 to almost 24 per-cent of GDP, reflecting higher growth, the deepening of the financial system, favourable price performance and a rapid growth in remittances from Indians working abroad. The balance of payments position was strong throughout the period and sizable external reserves were accumulated. In 1979-80, however, the economy suffered a sharp setback because of both domestic and external factors. Agricultural production was adversely affected by an exceptionally severe drought which also affected hydroelectric generation. The economy also suffered from infrastructural inadequacies in key sectors, such as coal, thermal power, and railways. Real national income fell by 5 per cent in 1979-80 and inflation, which re-emerged early in the year, was over 20 per cent. Domestic savings fell to about 21 per cent of GDP. The external situation facing the economy also deteriorated sharply. The price of imported crude oil doubled from the end of 1978 to January 1980 and this was reflected in a shift into an overall deficit in the balance of payments in the second half of 1979-80.

2. The economic situation improved in 1980-81, and overall growth is estimated to have been about 7.0 per cent. Performance during the first half of the year continued to be constrained by the lingering affects of drought and infrastructural difficulties. However, with a near normal monsoon, agricultural production recovered fully. Infrastructural bottlenecks also eased after mid-year with improvements in the availability of electricity and coal. Railway movement improved although some transportation bottlenecks still remained. Industrial production began a strong recovery in the second half of 1980-81. Inflationary pressures eased somewhat during the year in response to the improving supply position and demand management measures. The rate of inflation declined to about 16 per cent in 1980-81. Progress in this respect would have been greater but for continuing increases in import prices and substantial upward revision in administered prices. At the same time, external constraints on economy became more severe. The full effect of the increases in oil prices in the previous year were felt in 1980-81. External demand conditions facing India's exports remained weak, partly due to the rising tide of protectionism abroad. Inadequate supplies also constrained export growth, especially during the first half of the year. Consequently, the balance of payments deficit widened to SDR 1.2 billion.

3. The recovery which began in the middle of 1980-81 has continued to gain strength in the current year. Performance of coal, power and railways has improved considerably. Coal production increased by 6 per cent in the first quarter of 1981-82 and power output is 19 per cent higher. Movement of freight by the railways in the first quarter shows an increase of 16 per cent over the same period in the previous year. Production in several critical industries has shown a sharp increase in recent months compared to the previous year, reflecting an improvement in capacity utilization. In the period January-June 1981 steel production increased by 20 perc ent, cement by 17 per cent, and fertilizer by 32 per cent. Inflationary pressure has also eased. The 12-month rate of inflation declined from about 16 per cent in January 1981 to 10 per cent by the end of July. However, the balance of payments continues to be under severe strain.

4. The present balance of payments difficulties are expected to persist for several years before policies to strengthen the balance of payments have their full effect. It is in this context that Fund financing can play an important role. Balance of payments adjustment will be achieved through a range of measures which are being implemented and will be continued through the programme period. There is considerable scope to replace large imports of items where India is an efficient producer and to increase self-reliance in energy, especially in the exploration for and development of hydrocarbons. The Government of India also accords high priority to the objective of achieving a dynamic export performance. To this end, the Government has already taken a number of measures to promote exports. However, it will take time for these measures to bear fruit. Such measures to promote external adjustment, including efforts to overcome bottlenecks in industry and basic infrastructure, will require a sizable step-up in investment. Large investments will require higher domestic savings, and policies will continue to be designed to this end. The containment of inflation is an important objective, and domestic financial policies will be oriented to achieve this and to strengthen the efficiency of resource allocation.

5. The adjustment strategy outlined in the preceding paragraph is a part of the Sixth Plan efforts as described in the next five paragraphs. The plan (1980-81 through 1984 85) aims to achieve economic growth of 5.2 per cent per annum, or 3.3 per cent in per capita terms. Total Plan outlays in both the public and private sectors over the five years are estimated to be Rs. 1,722 billion at constant prices. To finance Plan investments, domestic

savings are projected to rise from 21.2 per-cent of GDP in 1979-80 to 24.5 per cent of GDP in 1984 85, implying a marginal savings rate in excess of 33 per cent. A major effort will be made to increase public sector savings to finance 21 per cent of total Plan investments over the Plan period. Private savings are estimated to account for 73 per cent of the total. Foreign capital inflows, mainly on concessional terms, will finance the remaining 6 per cent. The Plan provides that the main emphasis of public sector resource mobilization policies will be on raising the contribution of the large public enterprise sector by improving efficiency and pricing policies and on containing the burden of subsidies. The States are expected to make an important contribution to financing Plan outlays.

6. Total investment is estimated to be Rs. 1,587 billion during the five year period through 1984-85. Compared with the Fifth Plan, there is a projected real increase in investment outlays of more than 80 per cent. The share of the public sector rises from 45 per cent to 53 per cent, reflecting the emphasis of the Plan on overcoming bottlenecks in the infrastructure, such as energy and transportation and in basic goods such as coal, steel, fertilizer, and cement. Inclusive of recurring expenditures on Plan schemes, public sector outlays in the Plan are estimated to total Rs. 975 billion, divided about equally between the Centre and the States. The sectoral allocation of public sector investment expenditures reflects the Plan's objectives of structural diversification, modernization and self-reliance. Consistent with this, the highest outlay (Rs. 265 billion or 27 per cent of the total) is for the energy sector. This reflects efforts to reduce dependence on imports of petroleum by expanding domestic energy output. Public sector Plan outlays in the industrial sector are estimated to amount to Rs. 150 billion or 15 per cent of the total, including Rs. 93 billion for steel, fertilizers, heavy engineering, non-ferrous metals, petrochemicals, and cement. Investments in agriculture, including irrigation and flood control, are expected to absorb almost one quarter of public sector Plan outlays, with a major emphasis on accelerated development of irrigation potential. The transport sector has been allocated 13 per cent of public sector outlays, including a large allocation for the railways aimed at overcoming bottlenecks in domestic transportation. The public investment programme will be implemented flexibly in the light of the emerging situation during the Plan period. About 40 per cent of private sector investment is expected to be in the industrial sector, compared with about one third in the past. Investments will be largely in the consumer, chemical, and engineering industries.

7. The agricultural development strategy followed from the late 1960s, which has been responsible for significantly improved performance of this major sector, will be maintained and strengthened. In addition, agricultural policy will aim at improving the balance of production, with a major emphasis on efforts to overcome domestic shortages in nonfoodgrain production, including oilseeds, pulses, and sugarcane. This should help to reduce import needs and contain inflation while also creating and enlarging exportable surpluses in some commodities. During the period of the Sixth Plan, the rate of growth of foodgrain production is projected to rise from the past average of some 2.7 per cent to 3.7 per cent per annum. The output of other major crops is projected to grow even more rapidly — viz., oilseeds (5.0 per cent), sugarcane (4.1 per cent), and cotton (4.6 per cent). Agricultural expansion will be promoted by the accelerated adoption of improved production techniques. The principal targets are for an expansion in the area under irrigation from 52.6 million hectares in 1979-80 to 66.2 million hectares in 1984-85, with 2.5 million hectares being brought under irrigation in 1981-82; an increase in fertilizer consumption from 5.26 million tons of nutrients to 9.65 million tons over the same period, of which one million tons would be in 1981-82; and an expansion in the area under high-yielding varieties from 35.2 million hectares to 56.0 million hectares, including 2.3 million hectares in 1981-82. Parallel with efforts to promote the spread of modern production techniques, output pricing policies will be deployed so that financial incentives encourage the desired level and pattern of agricultural output consistent with overall price policy. To this end, support prices have recently been raised for the 1980-81 crop for rice, wheat, and cotton (by about 11 per cent in each case) and for groundnut (by about 8 per cent). The Government is committed to development programmes aimed at the upliftment of the weaker sections of society, especially in rural areas.

8. The public sector programme will focus on overcoming the bottlenecks in the supply of basic goods and essential infrastructure. The substantial increases projected in the production of such items as power, steel, nonferrous metals, cement and fertilizer, and in rail transport will result both from a step-up in investment, and from an improved utilization of existing capacity. Efforts are being made to strengthen the management of public enterprises. It is important that, consistent with domestic financial stability, public investment expenditures be increased steadily in a time-phased manner aimed at facilitating the balanced growth of productive capacity. Of public sector Plan outlays of Rs. 975 billion over the Plan period, outlays in 1980-81 amounted to Rs. 151 billion and outlays in 1981-82 are budgeted at Rs. 175 billion. It is the Government's belief that, with these levels of public sector plan expenditures allocated in line with the Plan's priorities, and supported by private sector investment where relevant, productive capacity in six key sectors will expand in line with the following schedule:

	Actual	Projected	
	1980-81	1981-82	1984-85
Coal (mn. tons) *	114	121	165
Electric power (end-year installed capacity in MW)	32,848	36,060	51,192
Nitrogenous fertilizer (mn. tons)	4.58	5.30	5.94
Railway freight traffic (bn. ton kilometers)	158	173	220
Steel (mn. tons)	11.21	11.21	14.30
Cement (mn. tons)	28.2	30.0	43.0

* Estimated production.

Projections for total public secter outlays and productive capacity expansion in the above six sectors for 1982 83 and 1983-84 towards meeting the Plan targets will be adopted in the course of formulating the anual Plans for these years.

9. Policies relating to private sector industry will aim at encouraging production, investment and economic efficiency. The Government's industrial Policy Statement of July 1980 reflects a pragmatic policy approach. Accordingly, a number of important policy initiatives have already been taken. Additional capacities created since 1975 are being regularized for a wide range of industries; existing arrangements providing for the automatic expansion of capacity have been extended to 19 additional industries; fully export-oriented units have been given additional concessions, and export capacity has been exempted from anti-monopoly regulations and domestic licensing provisions; policies favouring small-scale industries are being implemented in a way which places a much increased emphasis on economic efficiency; and import of foreign technology needed by the economy is being permitted liberally. The new industial policies are being implemented through a flexible administration of existing regulations. Further adaptation of policies to achieve the objectives stated earlier will continue to be kept under review. The Government recognizes the important role of industrial pricing policy and intends to follow a policy which takes account of the objectives that industry should earn adequate returns, and that prices should encourage the efficient use of resources.

10. Energy will be a critical issue for the 1980s. Indeed, the success of efforts to develop domestic energy resources and reduce dependence on imported petroleum will be essential to the overall success of the programme. Inadequate domestic supplies of coal and electricity have hampered economic activity in the recent past. While these problems are now easing, the Plan recognizes the need for a major step-up in non-oil energy development. As noted in paragraph 8 above, major steps are being taken to develop coal production, which is targeted to rise by 9 7 per cent per annum over the Plan period, and to increase peak electricity supply, by an average of 10.5 per cent per annum. Although India's *per capita* energy consumption is very low, the Government of India recognizes the need and scope for conservation of energy. Energy pricing policies are an important component of measures to this end. Coal prices have been raised recently to cover increased costs. Although electricity charges have been adjusted in some States, sizable losses continue to be incurred by a number of State Electricity Boards (SEBs). It is the Government's policy objective that domestic coal and electricity prices should reflect economic cost and generate internal resources for investment.

11. In the petroleum sector, the Government recognizes that the sharp increase in oil prices that occurred in 1979 has imposed a severe strain on the balance of payments and, accordingly, it attaches high priority to implementing a wide range of adjustment measures in this sector. The Sixth Plan empha-

We make product
With Higher Productivity

HIGHER PRODUCTIVITY IS THE NEED OF THE DAY

Higher Productivity Needs Planning and Behind
Planning, Paper and Boards:

ALIVE TO THIS NEED, WE PRODUCE
QUALITY PAPERS AND BOARDS
TO PROVIDE THE LITERAL AND
FIGURATIVE BASE FOR PRODUCTIVITY

SESHASAYEE PAPER AND BOARDS LIMITED
Cauvery R. S. P. O. Erode-638 007
SALEM DISTRICT

sizes an expanded scale of oil exploration and development and the Oil and Natural Gas Commission (ONGC) and Oil India Ltd., (PIL) never ambitious in this area. Recently it has been decided to step up the production of oil, mainly from offshore sources, beyond the levels projected in the Sixth Plan. The total additional production during the Sixth Plan period from these efforts is likely to be between 9 and 12 million tons. The Government has also invited foreign parties to tender for exploration and development in designated areas on a profit-sharing basis. As a result of these efforts to expand domestic oil production, the proportion of imports of crude oil and products in the total requirements of petroleum products declines from about 70 per cent in 1980-81 to 47 per cent by 1984-85. In addition to these measures on the supply side, the Government has made a number of upward adjustments in petroleum prices which should help to moderate the growth of demand. Prices of petroleum products were raised in June 1980 and again in January 1981, passing on fully the increases in import costs. Beyond these steps to pass on higher costs, in July 1981 the Government has implemented a substantial upward adjustment in the price of domestically-produced crude oil. Together with the duties and taxes on crude oil and petroleum products, the price of domestic crude is now on par with international prices. This latest price increase will raise a substantial volume of additional resources to finance Plan expenditure. Oil pricing policy thus serves the dual objective of moderating the growth of demand and contributing to non-inflationary financing of the public sector investment targets.

12. The financing pattern of the Plan envisages a shift in the contribution of various individual resource items and places greater emphasis than in the past on non-tax resources. Total savings by the Central Goverment over the Plan period are projected to amount to Rs. 259 billion, while an additional Rs. 218 billion is to be saved by the States. These public savings targets required a major public resource mobilization effort. The Plan envisages that additional resource mobilisation measurnes will yeild a total of Rs. 213 billion over the Plan period, of which the States would contribute Rs. 90 billion. It is expected that part of additional resource mobilization by the States will result from taxation measures. However, more than half of the total are expected to derive from measures aimed at substantially reducing prospective losses of the State Electricity Boards and State Road Transport Corporations, and at eliminating the operating subsidies on irrigation. A beginning has already been made towards meeting these targets with steps being taken in several States to raise electricity tariffs and bus fares. The Central Government has to raise a total of Rs. 123 billion in additional resources. Total tax revenues (including the States) have already reached about 20 per cent of national income and there is consequently only limited scope for the Central Government to increase tax rates. Nevertheless, new Central Government tax measures are expected to yield Rs. 51 billion over the plan period. The major thrust of the tax effort will be toward rationalization of the tax system, improved tax administration and selectived additional tax measures. The Central Goverment also intends to contain, and wherever possible, reduce subsidies, even though this might entail price adjustment for important commodities. It is expected that measures to contain subsidies will yield resource savings totaling Rs. 33 billion during the Plan period. Measures to strengthen the financial position of public scetor enterprises are projected to yield Rs. 39 billion during the Plan period. Major enterprises, such as those in the coal and steel sectors, and the Railways and Posts and Telegraphs, have not contributed adequately to resources for development and in some cases, have run large losses in recent years. Pricing and administrative improvements to be implemented during the Plan period will aim to achieve a 10 per cent rate of return on investments in public enterprises—2 percentage points above the previous norm.

13. An important objective during the programme period is to achieve a substantial increase in domestic resource mobilization in order to finance the investment programme. To this end, the Government has already undertaken a massive effort to mobilize additional resources in 1980-81 and in 1981-82. The tax and non tax measures already undertaken by the Central Government in the first 16 months of the Plan are projected to achieve 92 per cent of the resource moblization target of the Central Government and central public sector enterprises for the Sixth Plan. Tax measures in the 1980-81 central budget were estimated to yield additional revenues of Rs. 2.1 billion (net of the States' share) in 1980-81 and Rs. 12 billion over the programme period (at current prices). Further tax measures were adopted in 1981-82 which are estimated to yield an additional Rs. 2.7 billion in that year and Rs. 9 billion over the programme period.

In addition to these tax measures, the Central Government increased railway and postal and transport tariffs in 1980 81 and again in 1981-82; these adjustments are expected to yield additional resources amounting to Rs. 11 billion over the programme period. Steel prices were raised by 20 per cent and coal prices by 20–50 per cent in 1980-81 and these increases will contribute Rs. 10 billion to public sector internal resource mobilization over the programme period. In the past the Government has systematically passed on increases in the cost of imported crude to the domestic consumer through higher prices of petroleum products; to this end, petroleum prices were raised in June 1980 and again in January 1981.

More recently the Government has increased the price of domestic crude oil from an average of Rs. 391 per ton to Rs. 1,182 per ton. This increase in prices of about 200 per cent will make a major contribution to the additional resource mobilization effort, yielding about Rs. 9 billion in 1981-82 and a total of Rs. 47 billion over the programme period. The Government has also taken steps to reduce subsidies. Fertilizer prices were raised in 1980-81 to effect a total saving in the fertilizer subsidy bill of Rs. 10 billion over the programme period. Another increase in fertilizer prices was recently announced which will reduce the subsidy burden by a further Rs. 8 billion. These increases in petroleum and fertilizer prices have meant a massive upward adjustment within a very short period.

Price increases of different petroleum products have ranged from 40 per cent to 140 per cent within a 13 month period for most products and fertilizer prices have been increased by about 62 per cent. The additional burden borne by the consumer because of these adjustments amounts to over 3 per cent of GDP. The State Governments have also raised substantial additional resources. Measures taken in their budgets for 1980-81 are expected to yield about Rs. 7 billion over the programme period while measures covering the State Electricity Boards and Road Transport Corporations will raise another Rs. 10 billion over the programme period. Further efforts at additional resource mobilization have been made by the State Governments in 1981-82 which will yield Rs. 22 billion during the programme period. Beyond these efforts at additional resource mobilization, normal price adjustments in the public sector designed to ensure that cost increases are passed on and do not erode profitability have continued to be made. For example, prices of aluminium were increased by 18 — 20 per cent in 1980-81 and cement prices have recently been increaesd by 16 per cent.

It is the Government's intention to ensure that this flexibility in pricing will continue. The additional resources mobilized by the Central Government over the past 16 months are estimated to yield a total of Rs. 105 billion over the programme period. Including the additional resource mobilization efforts by the States, the total is estimated to be Rs. 142 billion. With these resource mobilization efforts, public savings available to finance the Plan are estimated to rise considerably. The actual performance of public savings from year to year will naturally be subject to the influence of exogenous factors including especially fluctuations induced by the weather. Subject to these qualifications Central Government and central public sector savings, which amounted to 2.3 per cent of GDP in 1980-81, are projected to rise to 3.0 per cent of GDP in 1981-82, to 3.3 per cent of GDP in 1982-83, and 3.6 per cent of GDP in 1983-84.

Total public sector savings, which amounted to 3.5 per cent of GDP in 1980-81, are projected to amount to 4.5 per cent of GDP in 1981-82, 4.9 per cent of GDP in 1982-83, and 5.3 per cent of GDP in 1983-84. These projected levels are estimated to be broadly sufficient to provide the public savings component, needed to finance the Sixth Plan's Central Government investment programme during the programme period and ensure that the real investment targets, especially in the key sectors identified in paragraphs 7 and 9 above, are achieved. Further resources would be required to fully meet the public savings contribution needed for the investment programme of the States. It will be the endeavor that, in the key sectors for which the States have a major responsibility notably power and irrigation, the real investment targets are maintained. The Central Government is making continuing efforts to encourage the States to strengthen further their resource mobilization effort so that these investment needs

FORMULA FOR A HAPPY HOME

Man, Wife, Children and Savings

Every house is a nest of happiness, of laughter, of enjoyable occasions — and ensuring this happiness is what we would like to do, with your help naturally.

For, it is you, who has to decide how much to save, for whom to save and for how long to save. Whatever you earn, there is always something you can put by for tomorrow — a tomorrow that is as full of happiness as today is.

Come to us............

LET'S DISCUSS ALL ABOUT IT TODAY

CORPORATION BANK
(Wholly owned by the Government of India)

Administrative Office : Mangalore

can be fully met, and it is expected that progress to this end will continue to be achieved. The Central Government also intends to implement further resource mobilization measures as necessary during the programme period to ensure that resources to finance the investment programme are realized. The Government intends to review progress in additional resources mobilization measures before the end of January 1982.

14. The underlying strategy with respect to Government spending is to curtail the growth of non-Plan expenditures in order to redirect resources toward the Plan. This strategy, and the sectoral priorities for Plan expenditures outlined in paragraph 6, are reflected in the budget and the Central Plan for 1981-82. While non–Plan expenditures in 1981-82 are budgeted to rise by 10 per cent, Central Plan expenditures are projected to increase by 19 per cent to Rs. 86.2 billion. Large allocations of Central Plan expenditures are made to agriculture and allied serivces (Rs. 8.8 billion), petroleum and petrochemicals (Rs. 10 8 billion, up 26 per cent), coal and lignite (Rs. 6.3 billion, up 32 per cent). iron and steel (Rs. 8.0 billion, up 8 per cent) electric power (Rs 6.7 billion, up 37 per cent), and railways (Rs. 9.8 billion, up 29 per cent). Despite the ambitious Central Plan, and owing, in part, to the reliance on internal resources of public sector undertakings, the Central Government budget for 1981-82 is stringent by historical standards.

In current price terms, total expenditure is budgeted to increase by only 9 per cent, revenue disbursements by 12 per cent, and capital disbursements by 5 per cent over the revised estimates for 1980-81. To finance Central Government expenditures, budgetary receipts are projected to rise by 12 per cent. Of the increase, new tax measures are projected to constitute less than 2 percentage points in net terms, which is small in comparison with increases in most recent years. This is because considerable direct tax relief has been allowed with the aim of promoting savings and stimulating investment. However, the revenue loss from direct taxes will be more than compensated for by an increase in indirect taxes, principally as a result of a 5 percentage point increase in auxiliary customs duty rates.

15. The household sector accounts for the bulk of domestic savings in India, and the buoyancy of savings during the second half of the 1970s largely reflected growth in savings in the household sector. The achievement of the planned step-up in investment thus depends on the continued buoyancy of private sector savings. Indeed, the Plan envisages that 77 per cent of gross domestic savings during the Plan period will be made by the private sector, principally households. It is expected that private savings will recover from the setback in 1979-80. Whith a resumption of rapid economic growth as envisaged under the Plan, and further deepening of financial intermediation as the activities of financial institutions spread and strengthen, marginal private savings can be expected to return to the earlier high levels. With the objective of promoting private savings further, the Government intends to strengthen the activities of the financial institutions in rural areas, and widen the scope of attractive financial assets available to private savers. The increase in the dividend paid by the Unit Trust of India in 1981 from 10 per cent to 11.5 per cent, which in turn reflects the improvement in capital market conditions, should encourage savings through this medium. Interest rates on medium-term bank deposits have recently been raised by 0.5 to 1.5 percentage points, and the interest rate ceiling on company debentures has been increased by 1.5 percentage points. A new six-year National Savings Certificate has been introduced with an interest rate of 12 per cent, 2 percentage points above the maximum bank deposit rate. Rates on long-term government securities have also been stepped up. The Government budget for 1981-82 also includes tax concessions designed to encourage private savings. Interest rate policy will be deployed flexibly keeping in mind these objectives and progress in reducing inflation. The authorities intend to review policy options to promote the desired growth in private savings.

16. The emphasis on monetary and financial policies in the recent past has been on containing inflationary pressures and restraining the rate of monetary expansion. This has been partly responsible for the recent easing in the rate of inflation. The principal objective of monetary policy over the programme period will be to promote relative stability in prices while supporting more rapid growth and supply-side policies. Demand management policies together with supply policies will aim at restoring relative stability in prices, and help to maintain an environment conducive to the mobilization of financial savings and to external adjustment. Despite the large volume of investment envisaged in infrastructure, it is intended to keep the Government's total recourse to bank credit within limits consistent with overall financial stability.

Further adequate financing would have to be made available to the commercial sector to support general economic activity, including the rebuilding and maintenance of adequate food stocks. Credit allocation policies will continue to be oriented to meet the needs of the priority areas and economically weaker sections of society in line with the Plan objectives. In September 1979 bank lending rates were raised significantly, along with deposit rates. Interest rates on bank advances were further adjusted upward following the budget of 1980-81. In March 1981, along with the increase in deposit rates mentioned in paragraph 15, the lending rate structure was raised and rationalized. Interest rates charged by the term-lending institutions were stepped up substantially. In line with the objectives just stated and in the context of developments in recent months, further measures have been taken to restrain the growth in money and credit.

Effecitve July 11, 1981, the Bank Rate was increased from 9 per cent to 10 per cent, the first change in the Bank Rate since 1974. Consistent with the increase in the Bank Rate, the refinance rates which are tied to the Bank Rate have also been increased. On June 1, the discretionary refinance rate and the bill discounting rate were raised from 11 per cent to 14 per cent. The liquidity of commerical banks will be contained by phased increases in the cash reserve ratio and the statutory liquidity ratio. The former is being raised from 6 per cent to 7 per cent in two stages: it was raised to 6.5 per cent on July 31, 1981 and the process was completed on August 21, 1981. Similarly, the statutory liquidity ratio will be raised from 34 per cent to 34.5 per cent by September 25, 1981 and again to 35 per cent effective October 31, 1981. These adjustments when complete, are estimated to reduce loanable funds with the scheduled commercial banks by about Rs. 9 billion or 2 per cent of their demand and time liabilities as at end-March 1981. Selective credit controls have been modified on July 13, 1981 in order to restrain bank advances against stocks and foodgrains other than those held by public sector agencies. In this context, the minimum margin for bank advances against inventories of these commodities has been increased by 10 percentage points.

17. The financial programme for 1981-82 has been framed in this light. Consistent with real growth of about 5 per cent which appears feasible if weather conditions are favourable, and some abatement in inflationary pressures, the Government will aim to limit the growth of total liquidity to about 15.7 per cent in 1981-82. However, much of this expansion in liquidity is due to the growth of time deposits which, in response to the special policy measures taken recently, are expected to grow at a significant rate. This is an important aspect of mobilization of savings by the financial system. Taking account of the Projected balance of payments deficit, total domestic credit expansion is to belimited to 19.4 per cent. Allowing for seasonal credit needs, the Government intends to limit net credit to the Government and total domestic credit within the ceilings in the following table. Corrective measures will be taken promptly if developments suggest that the ceilings may be exceeded.

INDIA: CEILINGS ON NET CREDIT TO GOVERNMENT AND TOTAL DOMESTIC CREDIT

(In billions of rupees)

	Amount Outstanding on March 27, 1981	Ceiling Amounts Outstanding on Nov. 27, 1981	Feb. 26 1982	Mar. 26 1982
Net credit to Government	258.06	294.29	304.64	309.81
Total domestic credit	621.26	703.59	733.20	741.81

18. A critical objective of the programme is to increase the growth in exports. This would follow naturally from successful efforts to overcome bottlenecks and increase supplies. The Government has recently reviewed export promotion and development policies and a number of new initiatives have already been taken. Export production has been freed from restrictions arising from industrial licensing. Exports will not be included in the calculation of capacity for purposes of industrial licensing or for purposes of the Monopolies and Restrictive Trade Practices Act.

WITH BEST COMPLIMENTS FROM

VIKRANT TYRES LIMITED

(Manufacturers of Tyres/Tubes for Trucks, Buses, Light Trucks, Cars, 2 & 3 Wheelers, Tractors, ADV and Trailers)

Registered Office:
"Vikrant House", No. 54, 1st Main Road,
VV Mohalla, Mysore 570 002

Administrative Office & Factory:
KRS Road, Metagalli, Mysore 570 016

"VIKRANT" — A Reliable Tyre

Telex: 0846-223
Phone: 21540
Grams: VIKRANTYRE

The import policy for 1981-82 announced in April included additional measures to promote exports and to facilitate the access of exporters to imported inputs and technology. A scheme for 100 per cent export-oriented units has been implemented whereby such units can be set up anywhere in the country with the same duty free access to import requirements that is normally provided only in the free trade zones. For this purpose, even a part of an industrial unit may be treated as a 100 per cent export unit provided it constitutes a separate production stream. Access of other exporters to import requirements has also been improved in several ways. Export houses qualifying as "Trading Houses" will be given special incentives particularly with regard to issue of import licenses and opening of offices abroad. It has been decided to establish the Export-Import Bank of India to meet the financing needs of foreign trade, especially exports, more effectively. The budget for 1981-82 extended fiscal concessions to a number of industries with export potential. The Government's export policy review identified certain additional measures which could further strengthen the export effort. The Government is currently considering these with a view to their possible introduction although no decisions have yet been reached. These include extending concessions to less than 100 per cent export-oriented units; expanding the coverage and simplifying procedures of the advance licensing (duty exemption) scheme for exporters; extending access of exporters to imports; liberalizing access of exporters to foreign technology; improving procedures for fixing duty drawback rates and setting drawback claims; and the coordination of supply and demand policies to promote consistent exportable surpluses of agricultural commodities. The general thrust of recent policy changes has been to eliminate identified constraints on exports and the Government intends to take further significant measures to strengthen the evport effort during the programme period. The Government intends to review all relevant policies bearing on export development before the end of January 1982 and if necessary will strengthen its policies.

19. Import restrictions were progressively relaxed in the late 1970s. This has greatly increased access of domestic producers to imports of raw materials and intermediate goods. Restrictions on imports of capital goods also been eased consideraly. A large number of capital goods are importable under open general licenses (OGL) and in respect of 13 selected industries which account for about half of the investment in the industrial sector under the Plan and cover major priority areas for public investment in the Sixth Plan, a flexible procedure providing for international competitive bidding has been established. The import policies for 1980-81 and 1981-82 made further modifications, including restrictions for some items, and liberalization with regard to some others. The changes were aimed at refining the classification of items and took into account developments in domestic availabilities, especially from the small-scale sector. The Government emphasizes that these modifications do not represent a change in the direction of policies, have not resulted in an overall tightening of import restrictions, and that the liberal import regine remains essentialy unchanged.

The import policy adopted for 1981-82, the first year of the programme, includes a number of liberalization measures, especially for exporters as noted in paragraph 18 above. In addition the programme allows for imports of second-hand machinery for items under O.G.L., thus enabling a reduction of investment costs; more favourable provisions for automatic licenses for imports of raw materials, components, consumables and spares by small-scale industries; and special facilities for imports by the Government and some public enterprises, which will benefit, inter alia, the coal and railways sectors and thus contribute to removing bottlenecks. Import policy for the period ahead will be guided by the need to ensure that import requirements and technology need of a growing economy and a heavy investment programme are adequately and expeditiously met with a view to economic efficiency. The rise in imports will include large increases in capital goods to support the investment programme, and producer items to support expanded economic activity. To support this, it is our intention to carry forward the progress achieved over recent years toward liberalization of imports of raw materials, intermediate and capital goods needed by the economy.

It is our intention that the import policies for 1982-83 and 1983-84 will contain significant steps aimed at liberalizing imports. It is intended to take further measures to simplify and rationalise the regulations and procedures governing import approval. Policies regarding imports, including capital goods imports, will be flexibly administered. Where appropriate in the interest of economic efficiency, consideration will be given to further imports of selected categories being produced at present. Measures introduced will be greater in impact than any adjustments to tighten restrictions. Specific measures contemplated include increasing the access to imports of restricted and banned items permitted under automatic import licences as well as changes in the classification of items under the restricted, banned and open lists. An assessment of the significance of such measures in terms of the overall objective of providing liberal access to import requirements of the economy will be made.

20. Our export and import policies are guided by the objective of achieving external adjustment during 1980s. The current account balance which had earlier been in surplus, moved into sharp deficit in 1980-81, reaching the equivalent of 2.0 per cent of GDP. Projections for 1981-82 indicate that the deterioration in the current account will be arrested in that year, reflecting a return to normal levels of domestic crude oil production and a consequent moderation in the growth of total imports. However, in the two subsequent years, the current account deficit would widen as non-oil imports are expected to expand strongly to support expanding investment and production. The current account deficit as a proportion of GDP would peak in 1983-84, at 2.2 per cent of GDP, it would decline markedly to 1.8 per cent in 1984-85 and gradually thereafter during the remainder of the decade. Taking into account official capital receipts, increased recourse to commercial

credits and the possibility of private capital inflows, the balance of payments financing gap is projected to be SDR 6.4 billion during the 1981-82—1983-84 period.

21. Until very recently, India has resorted only modestly to external borrowing on commercial terms and the bulk of its foreign debt arises from assistance channeled through the India Consortium and is predominantly on concessional terms. India's outstanding disbursed external debt currently amounts to about SDR 14 billion, equivalent to some 11 per cent of GDP. The external debt service ratio declined steadily during the 1970s and in 1980-81, debt service payments are estimated to be 8 per cent of current account receipts. The ratio is projected to rise over the coming years, reflecting an expected increase in recourse to borrowing on commercial terms, and an expected hardening of the average terms of multilateral flows. Nevertheless, the debt servicing burden will remain manageable. In order to avoid an undue deterioration of the debt service profile, the Government intends to take a cautious approach to foreign borrowing on commercial terms. The Government is considering two large projects in the steel and electric power sectors as important elements of the long-range strategy to eliminate shortages and strengthen the balance of payments. The two projects, which are still at the planning stage, would have a combined foreign exchange cost of about SDR 3 billion. A considerable portion of the external financing arrangements for these projects would be on nonconcessional terms. Because of the extended period needed for preparation and implementation, it is not possible at present to precisely indicate the timing of the borrowing programme for these projects. However, while it is expected that external borrowing commitments for both projects will be undertaken at some stage during the programme period, only a part of the loans would be disbursed by 1983-84. As an order of magnitude, these disbursements, which are excluded from the balance of payments projections, would be expected to be about SDR 1 billion during the programme period. Bearing these borrowings in mind, during the first year of the extended arrangement the Government will limit the contracting or guaranteeing of other nonconcessional loans with an origional maturity of between one and twelve years to no more than SDR 1.4 billion. With this ceiling, new commitments of between one and five years will be limited to SDR 400 million.

22. The rupee has been pegged to a basket of currencies of India's trading partners since September 1975, with the pound sterling as the intervention currency. The relationship between the rupee and the basket of currencies is maintained within margins of 5 per cent. This system has proved highly satisfactory. The major constraint on exports at the present time arises from inadequate supplies. The Government also recognizes that exchange rate policy has an important bearing on export growth. During the programme period the Government intends to pursue realistic policy in regard to exchange rates keeping in mind, inter alia, their objectives with

Make your tomorrows safe and worry free...

- ☐ HAVE A LITTLE SAVINGS
- ☐ HAVE YOUR WISHES FULFILLED
- ☐ HAVE OUR WIDE RANGE OF PLANS

For the education of your children, their marriage
And for you something to fall back upon in old age

YOUR NEAREST BRANCH MANAGER WILL EXPLAIN
OUR WIDE RANGE OF PLANS AND SERVICE YOU

FOR SAVINGS AND SERVICE

STATE BANK OF TRAVANCORE
(Associate of the State Bank of India)

Head Office
Trivandrum

N. C. Banerjee
Managing Director

regard to the overall balance of payments and export promotion.

Extended Arrangement - India

Attached hereto is a letter, with annexed momorandum, dated September 28, 1981 from the Minister of Finance of India, requesting an extended arrangement and setting forth:

(a) the objectives and polices that the authoritiesties of India intend to pursue for the period of extended arrangement;

(b) the policies and measures that the author-of India intend to pursue for the first year of this this extended arrangement; and

(c) understandings of the authorities of India with the Fund regarding reviews that will be made of progress in realizing the objectives of the programme and of the policies and measures that the authorities of India will pursue for the second and third years of this extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of three years from 1981 India will have the right to make purchases from the Fund in an amount equivalent to SDR 5,000 million, subject to paragraphs 2, 3, 4 and 5 below, without further review by the Fund.

2. (a) Until June 30, 1982, purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 900 million, provided that purchases shall not exceed the equivalent of SDR 300 million until January 15, 1982, and SDR 600 million until March 25, 1982.

(b) Until June 30, 1983, purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 2,700 million.

(c) The right of India to make purchases during the period from July 1, 1982 to June 30, 1983, and from July 1, 1983 to the end of the extended arrangement shall be subject to such phasing as shall be determined.

3. Purchases under this extended arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1 until purchases under this arrangement reach the equivalent of SDR 4,809 million, and then from borrowed resources, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. India will not make purchases under this extended arrangement:

(a) during the period through June 30, 1982 in which the data at the end of the preceding period indicate that:

- (i) the ceiling on domestic credit of the banking system described in paragragh 17 and the associated table of the annexed Statement of Economic Policies; or
- (ii) the ceiling on net credit to the Government of the banking system described in paragragh 17 and the associated table of the annexed Statement of Economic policies are not observed, or

(b) with respect to the period after March 24, 1982 if the reviews comtemplated in paragraph 5 of the attached letter have not been completed, or if following these reviews, any new understandings reached in these reviews are not observed; or

(c) if India fails to observe the limits on authorizations of new official and officially-guaranteed foreign indebtedness described in paragraph 21 of the attached memorandum; or

(d) for the period from July 1, 1982 to June 30, 1983 and from July 1, 1983 through the end of the extended arrangement, if before June 30, 1982 and June 30, 1983, respectively, suitable performance clauses for there periods have not been established in consultation with the Fund, or if such clauses, having been established, are not observed; or

(e) throughout the duration of the extended arrangement, if India

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions, or
- (ii) introduces multiple currency practices, or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When India is prevented from purchasing under this extended arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and India and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. India's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of India. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuan to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and India and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be in SDRs if, on the request of India, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this extended arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. India will consult the Fund on the timing of purchases involving borrowed resources.

8. India shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. (a) India shall repurchase the amount of its currency that results from a purchase under this arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as India's balance of payments and reserve position improves.

(b) Any reduction in India's currency help by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this extended arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the extended arrangement India shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to India or of representatives of India to the Fund. India shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of India in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

11. In accordance with paragraph 5 of the attached letter India will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because of any of the criteria under paragraph 4 above have not been observed or because he considers that consultation on the programme is desirable. In addition, after the period of the arrangement and while India has outstanding purchases under this extended arrangement, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning India's balance of payments policies.

The Government of India provided the following explanation, transmitted by Mr. Narasimham, Executive Director elected by India, in a memorandum dated September 2, 1981, to clarify the Government's intentions with regard to the understandings on consultations set forth by the Minister of Finance in paragraph 5 of his letter of September 28, 1981 (Attachment B).

"The additional wording suggested in paragraph 5 of the letter forwarding Government of India's statement of economic policies, namely, "consistent with national policies accepted by our Parliament" and "Government measures, which are in line with its declared policies" are meant to refer to actual adoption of measures and is not intended to exclude from the consultation provided for in that paragraph any policies that Fund considers are and would be consistent with achieving the objectives of the programme."

25 Lakh Pump Sets to be Energised in Sixth Plan

TWENTY-Five lakh pump-sets are proposed to be energised during the Sixth Plan. This will raise the number of electrical pump-sets in the country from 39.5 lakh in March 1980 to 64.5 lakh by March 1985. By the end of March 1983, about 13 lakh pump-sets will be energised taking the total of such pump-sets to 52.4 lakh. At present, Tamil Nadu has the largest number (8.87 lakh) pump-sets followed by Maharashtra (5 97 lakh), Andhra Pradesh (3.87 lakh) and Uttar Pradesh (3.61 lakh). By March, 1988, the number of such sets in these States will go up to 9.79 lakh, 7.68 lakh, 5.34 lakh and 5.16 lakh respectively. The energisation of these pump-sets will substantially increase the irrigation facilities under minor irrigation in the country.

During 1980-81 the Government took several measures to accelerate the programme of minor irrigation which includes ground water and surface water projects having a culturable command area up to 2000 hectares. A crash programme for construction of 5000 shallow tubewells in Assam was taken up for the accelerated development of ground water in the north-eastern region. This was specially for the benefit of the people in flood-prone areas and other weaker sections. A pilot project for the constructruction of 500 public tubewells in UP was taken up with World Bank assistance. Sustained efforts were made for establishing norms and standards to improve the efficiency of irrigation pumpsets. Necessary guidelines were circulated to State Governments in this regard. Exclusive allocation of cement was made for State minor irrigation works through the Cement Controller. The schemes pending in the Agricultural Refinance and Development Corporation were pursued for quick clearance.

A. P. POWER SCHEME APPROVED

Transformer capacity of seventeen 132 kv sub-stations in Andhra Pradesh is to be enhanced during the Sixth Plan to meet increased load demand at various centres. A scheme to this effect, costing Rs. 7.18 crores has been approved by the Planning Commission. The scheme envisages enhancement of transformer capacities at Wadapalli, Nellore South, Puthur, Nellore Thermal Station, Dharmavaram, Wanaparthy, Ramagundam 'B' station, Sadasivpet, Kolanpak, Pochampad, Naval Wharf, Khammar, Moula Ali, Erragadda, Shapurnagar, Chandryangutta and T. B. Vara. The transformers released from sub-stations where new transformers of higher capacities are to be installed would be utilised to augment capacities at smaller sub-stations.

ENERGY CRISIS: A DISCUSSION

Energy Consumption and Energy Resources in India: Some Alternatives

By M. C. Kodli *

Energy planning in India assumes paramount importance in view of the projected growth in energy consumption and the limited availability of fossil fuels — particularly oil. In any such exercise, rational use of non-commercial sources like fuel wood and cow dung assumes special importance in view of their environmental implications. This paper focusses on these issues and indicates the lines along which the planners should proceed in their pursuit of energy conservation.

ENERGY is essential for economic development. There exists a strong correlation between *per capita* energy consumption and the level of economic development, as measured by *per capita* income in different countries of the world. In the developed countries of the world the *per capita* energy consumption, like the *per capita* income, is very high compared to the developing countries. With the development of the economy, the energy consumption increases in the developing countries. When we notice the relationship between the development of the economy and the energy consumption, we can distinguish between three stages on the basis of the rates of increase in energy consumption. When the economies are backward, the co-efficient of energy consumption is very low. In such economies, the rate of increase in energy consumption is less than the rate of increase in economic growth.

But once the process of development is under way, the energy consumption increases. The co-efficient of energy consumption becomes more than one. In such situations the rate of increase in energy consumption is more than the increase in economic growth. Most of the developing countries in the world are in this stage of development at present as far as energy consumption is concerned. In the case of mature economies, the co-efficient of energy consumption again becomes less than one. The countries in the first world belong to this category. Therefore, the oil crisis and the subsequent energy crisis after October 1973 have affected the developing countries much more than the developed ones. Energy became scarce and costly when the developing countries were in a stage of development where the co-efficient of energy consumption is more than one.

Energy is derived from a numof sources. They are coal, oil, natural gas, electricity and nuclear energy. The energy derived from these sources is called commercial energy. Energy is also derived from fire-wood, cow-dung and agricultural waste. The energy derived from these sources is called non-commercial energy. Both the commercial and non-commercial sources of energy together are called conventional sources of energy. Besides this, there are also non-conventional sources of energy like solar energy, tidal power, wind power and geothermal energy. They are not important at present, but may become important in future with development in science and technology. Most of the countries in the world make use of both the commercial and non-commercial energy. But the share of the commercial and non-commercial energies undergoes a change with the development of the economy. In backward economies, as much as 90 per cent of the energy is derived from non-commercial sources. With the process of development, the share of the non-commercial energy declines and that of commercial energy increases. In the developed countries, all the energy is derived from commercial sources only.

II

Indian economy has recorded an average rate of growth of 3.4 per cent over 25 years between 1950-51 and 1975-76.[1] Different Five-Year Plans had aimed at more than 5 per cent growth rate but the economy was not able to achieve such a high rate of growth for many reasons. The low rate of growth of the economy, combined with a high rate of growth of population, has allowed only a very slow growth of *per capita* imcome of less than 1.5 per cent per year.

As regards energy consumption in India, we find that between 1953-54 and 1970-71 the total energy consumption has more than doubled. The total energy consumption in India in 1953-54 was 190 million tonnes of coal replacement and it increased to 380 million tonnes of coal replacement in 1970-71.[2] Along with this change in the quantity of total energy consumed in India there is also a change in the composition of the energy. The share of the non-commercial energy declined from 68 per cent in 1953-54 to 48 per cent in 1970-71. In the commercial energy group (i.e. coal, oil, natural gas, electricity nuclear energy) the share of the different energy sources has changed. In 1953, coal was an important source of commercial energy consumed. But by 1970-71, petroleum took the lead. In the course of little more than 15 years, coal yielded place to oil in the commercial energy sector in India.

---

* Dr. M. C. Kodli teaches in the Department of Economics, Karnataka University, Dharwad.

The energy consumption in India is marked by large inequality in the quality and quantity of energy consumed in the rural and urban areas. *Per capita* energy consumption in urban areas is considerably higher than the *per capita* rural energy consumption. In the urban areas in India, the energy consumed is the commercial energy with a small share of non-commercial energy used mostly in the domestic sector. But in the rural areas, most of the energy consumed is the non-commercial energy like fire-wood, cow-dung and agricultural waste. The oil price hike since October 1973 has helped to highlight the problem of commercial energy. But the energy problem in the rural areas which is chronic has been neglected. The rural energy problem is basically a problem of balance between non-commercial energy resources and the population in the rural areas. With the increase in population and with deforestation taking place in India, rural energy problem assumes an added importance.

The important sources of commerical energy in India are coal, petroleum, hydroelectricity. Nuclear energy accounts for a very small share of the commercial energy. Over the period 1953-54 and 1970-71 the consumption of coal, petroleum and electricity has increased at different rates.

In 1953-54, coal was occupying an important place in the commercial energy sector, accounting for nearly 50 per cent of the total commercial energy. Electricity accounted for only 13 per cent of the commercial energy. But by 1970-71, coal lost its importance and petroleum took the lead by supplying 50 per cent of the commercial energy. Similarly, electricity also improved its position by meeting 25 per cent of the commercial energy consumed. We also find that during this period, the consumption of coal has almost doubled. But in the case of petroleum its consumption has gone up by four times and that of electricity by more than six times. In the course of nearly 20 years the Indian economy shifted from domestic energy base (coal) to the imported energy base (petroleum) in the commercial energy sector.

It is important to know for policy proposes in what sectors the commercial energy is consumed so that we can think of the possibility of switching over to alternative sources of energy wherever possible.

We find that the two most important sectors from the point of view of consumption of commercial energy are mining and manufacturing, transport and commnications. These two sectors account for more than 70 per cent of the commercial energy. Next comes the house hold sector. In the urban areas and, to some extent, in the rural areas, commercial energy is used in the house hold sector. In 1953-54 house hold sector accounted for 20 per cent of the commercial energy consumption and in 1970-71 its share was reduced to 18 per cent. Agriculture accounted for less than 5 per cent of the commercial energy consumption in India. We notice that more than 70 per cent of the electricity is consumed in the urban manufacturing sector. Similarly 50 per cent of the oil is consumed in the transport sector.

The vast majority of the population in rural areas use non-commercial energy in the house hold sector. In 1970-71, out of the total 183 million tonnes of coal replacement of non-commercial energy consumed in the rural areas, 65 per cent was provided by fire-wood, 15 per cent by cow-dung and 20 per cent by agricultural wastes. Burning of dung for fuel purposes is considered to be undesirable, since dung can be used as manure. The people in the rural areas are going to depend for many more years on non-commercial energy. It is not possible to provide commercial energy for the masses of people in the rural areas. When the majority of the population in the rural areas live below and just above the poverty line, they lack

TABLE - I

COMMERCIAL ENERGY CONSUMPTION BY MAIN FUELS 1953-54 TO 1970-71.

(In million tonnes of coal replacement).

	1953-54	1960-61	1965-66	1968-69	1970-71
Coal (direct use)	28.7	40.4	51.8	53.0	51.4
Petroleum (direct use)	23.8	43.9	64.6	82.3	97.2
Electricity	7.6	16.9	30.6	41.5	48.6
Total :	60.1	101.2	147.0	176.8	197.2

Source : P. D. Henderson, India : The energy sector, Oxford University Press 1975.

TABLE - II

COMMERCIAL ENERGY CONSUMPTION BY SECTORS 1953-54 AND 1970-71

(Million tonnes of coal replacement)

Sectors	1953-54				1970-71			
	Coal	Oil	Electricity	Total	Coal	Oil	Electricity	Total
1. Mining and Manufacturing	13.80	3.65	5.00	22.45	31.07	10.90	34.35	76.32
2. Transport.	12.10	8.76	0.60	21.46	15.91	47.23	1.43	64.57
3. Domestic	2.20	9.79	0.70	12.69	4.07	27.58	3.83	35.48
4. Agricultural	neg.	1.61	0.20	1.81	neg.	4.51	4.54	9.05
5. Commercial (Including Govt. and others)	0.60	–	1.10	1.70	0.30	6.97	4.50	11.77
TOTAL :	28.70	23.81	7.60	60.11	51.35	97.19	48.65	197.19

Source ; Report of the Fuel Policy Committee, 1974 purchasing power to buy commercial energy. With increasing scarcity of firewood, the unauthorised cutting of forest trees is increasing, leading to the destruction of forests. Therefore, the rural people should be provided with cheap energy which does not involve heavy initial investment.

We shall now briefly survey the energy resources available in India so that we will be in a position to point out the essential components of an energy policy for India. We shall first take up commercial energy resources. India is well endowed with coal. The total quantity of coal available in India is estimated to be about 81 billion tonnes.[3] About 25 per cent of this falls in the category of proved reserves. At the present level of consumption, the proved reserves will last for nearly 200 years.

The oil resources of India however are limited. At present a lot of effort is being made to increase the proved reserves of oil. Present proved reserves are estimated to be about 325 million tonnes. At the present level of consumption of oil in India, these proved reserves will not be sufficient even for ten years. At present, India is importing 50 per cent of its oil requirements from abroad and spends large amount of money on it. There is an urgent need to reduce this dependency on imported sources of energy.

India is also well endowed with hydro-electric potential. The availability of hydro-electric resources reduces the imbalance that arises as a result of uneven distribution of coal reserves. The important coal producing States like Bihar, West Bengal are not well endowed with hydro-electric resources whereas a number of States in the South and North West which lack coal reserves are well endowed with hydro-electric resources. Since hydro-electric power generation is the cheapest method of generating energy, India has to make full use of its vast hydro-electric resources. We have seen that energy needs of the rural population is met by non-commercial energy. This is derived in India from sources such as fire-wood, cow-dug and agricultural wastes.

Forests in India occupy only 23 per cent of the geographical area in the country. The national forests policy resolution has laid down that it should be raised to $\frac{1}{3}$rd of the total geographical area. The consumption of firewood is going to increase in future. Therefore, besides managing the existing forest resources properly there is a need for increasing the forest resources.

Cow-dung is another source of non-commercial energy used in rural India. On the basis of 280 million cattle population of India for the year 1975-76 the annual yield of cow-dung is estimated to be about 170 million tonnes.[4] About 50 per cent of this is used as fuel. Since cow-dung can be used as manure its burning deprives the land of valuable nutrients. Therefor, the National Commission on Agriculture has recommended that the use of cow-dung as fuel must be reduced from the present 15 per cent to 5 per cent of the non-commercial fuel consumption.

Vegetable wastes provide about 20 per cent of the non-commercial energy used in rural India. With increase in agricultural production the quantity of vegetable wastes is expected to go up.

When we plan for an energy policy, we have to keep in mind who consumes how much energy and what type of energy. There cannot be a single solution for urban and rural energy problems. In the urban areas, transport and manufacturing consume a large share of the commercial energy. Out of the three important sources of commercial energy, namely, coal, petroleum and electricity, India possesses coal and electricity resources. We have limited resources of petroleum at present. Therefore in the commercial energy field, there should be a switch over to coal and electricity from petroleum. India cannot continue to depend on imported source of energy. The consumption of "fuel oil" in industries can be reduced and coal can be substituted without affecting production. It is estimated that 70 per cent of the industries using fuel oil can be switched over to coal.[5] The Fuel Policy Committee has recommended the establishment of "National Fuel Efficiency Service" which can ensure that the choice of fuel is done in each industry with regard to technical and national interest.

The transport sector accounts for half of the consumption of oil. Since it is a major oil consuming sector, large reductions in oil consumption will have to take place in this sector. But in order to do that, it is necessary to evolve an integrated transportation policy involving all means of transport of men and materials.

In the rural areas, the thrust of the energy policy must be on the provision of cheap energy to the masses. An energy forest for each village seems to be the most practical solution for rural energy problem. It is estimated that an energy forest of 3.5 hectares planted with trees having an 8 year cycle can yield about 500 kwh. per day at a cost of Rs. 0.03 per kwh. This can meet the energy requirements of a village with 500 persons at the present rate of *per capita* consumption of 1 kwh per day.[6]

Another solution that is suggested for rural energy problem is the establishment of bio-gas plants. But not all people in the rural areas can afford to undertake initial investment in the plant. On the basis of the energy resources availability in India, the basis of commercial energy should shift from oil to electricity and coal. While efforts for exploration of oil should be continued, its consumption should be discouraged wherever possible. In the rural areas, energy forest and the bio-gas plants should become the basis of energy. The use of valuable cow dung as fuel should be discouraged as it has better alternative use.

REFERENCES

1. Prof. P. R. Brahmananda, Planning for a futureless economy, Himalaya Publishing House, Bombay, 1978.

2. Government of India,—Report of the Fuel Policy Committee, 1974, p. 38.

3. Report of the Fuel Policy Committee, 1974, p. 23.

4. Report of the Fuel Policy Committee, 1974, p. 33.

5. Report of the Fuel Policy Committee 1974.

6. R.K.N. Reddy and K. Krishna Prasad, "Technological Alternative and the Indian Energy Crisis" Eco. Pol. Wkly. Aug. 1977.

Carrying a lot of money? You're asking for trouble!

Play safe and carry SUPERMONEY

(CENTRAL BANK TRAVELLERS CHEQUES)

In denominations of
Rs. 100, Rs. 500 and Rs. 1000

The safe,
convenient way of
carrying big money
—or keeping it.

Supermoney Travellers Cheques are pilfer-proof. You put your signature on them in front of the issuing authority. When you want to encash Supermoney Travellers Cheques, you have to sign on them again before the paying official who checks whether the signatures tally. This ensures that only the rightful owner receives the money. If they are lost or stolen, you can get the money back from the issuing office, after usual formalities are completed.

Supermoney is not only safe but is also convenient. It is cashable immediately at any nationalised bank. It is also accepted at well-known shops, department stores, hotels, airlines and at important railway stations.

There is no time limit for encashing Supermoney. And, best of all, there is no charge.

Central Bank of India
A Government of India Undertaking
The bank that moves out to people and places.

[illegible] CBI 9 81

India's Energy Crisis: Some Policy Options

By **C. D. Singh*** *and* **Y. P. Singh****

Further exploitation of the existing sources of energy, its economical and efficient use, search for new energy sources and a new approach to non-industrial, domestic energy consumption are among the suggestions made by the authors of this article for meeting the energy crisis. This calls for an investment and organisational effort of an order which may well be within the grasp of our Government.

THE critical relationship between energy input and economic development needs no explanation. The low level of energy input in both agriculture and household industries in India has resulted in poor productivity, leading to low incomes and pervasive porverty. If the country's economic growth is to be accelerated and if the quality of life of the poorer sections of the population is to be improved by reducing unproductive human drudgery, an increase in the level of energy consumption is necessary.

The country is facing an acute energy crisis precipitated by the sharp continued increase in oil prices and frequent break-downs of hydel generation in the country during recent years. The intensity of the problem can very well be realised if we examine our fast growing requirements for energy with the pace of development against a world wide situation of dwindling energy supplies and rising energy costs.

The present position of energy supply in India from all the sources, inspite of the marked improvement achieved during the plan period, is quite unsatisfactory and inadequate in comparision with the growing needs of the country. All the four main sources of energy, namely coal, petroleum, hydro electricity and nuclear power, are under-developed and is not capable of coping with the pace of development requirements.

The country's coal reserves stand at 110 billion tonnes upto a depth of 1,200 metres and in seams of thickness of half a metre and above. Large as this may appear, the reserves are small in *per capita* terms compared to many other countries; it is 13,488 tons in U. S. A., 22,066 tons in U.S.S R., and 1,168 tons in China while it is only 176 tons in India. At a modest growth rate of 6 per cent in the consumption of coal, our reserves would last for 90 years. But at the current level of consumption of coal in U. S. A., the reserves would be exhausted within 35 years.

The most important source of energy in the world is petroleum as, at present, it meets ⅓rd of the total world energy needs. But our proven reserves of oil and gas are also very limited, being only 1/20th of U. S. A., 1/73rd of the U. S. S. R. and 1/6th of China's. Efforts are being made to explore and exploit the petroleum reserves of the country with the establishment of "Oil and Natural Gas Commission" and a fair degree of success is achieved in this respect. In 1960-61, our total production was about 0.51 million tons. This reached 10.63 million tons in 1977-78. Thus, within 17 years, there was a more than 20 fold increase. However, the actual oil consumption for the year 1977-78 was estimated at 25.54 million tons. It is expected to reach 37.50 million tons by 1982-83. Thus the domestic production is proving quite inadequate compared with the growing needs. We meet only about 1/3rd of total petroleum consumption from domestic production and for the rest of the 2/3rd, we have to depend on imports. Prices have been increasing very fast after 1973, exerting a very heavy burden on our balance of payments. Petroleum imports, which costed only Rs. 136 crores in 1970-71, amounted to Rs. 1,176 crores in 1975 and Rs. 8,200 crores in 1977. Prices have been raised again and again several times after 1977.

The most common and popular source of energy in India is electrical energy. It is obtained mainly from two sources—hydro electric and thermal. States like Jammu and Kashmir, Karnataka, Kerala and Meghalaya depend mainly on hydro electric power while West Bengal, Bihar, and Delhi use mainly thermal power. Andhra, Madhya Pradesh, U. P., Tamil Nadu, Orissa, Rajasthan, Punjab and Haryana make use of both. In March 1975, there were 146 electricity generating units—77 hydro electric and 69 thermal. The total installed capacity in respect of electricity was 202 lakh kW in 1974-75 which was only 24 lakh kW in the year 1950. Thus a good deal of progress has been recorded in this respect. But yet, it is insignificant compared to the requirements as well as the potential of the country. Particularly in respect of hydro electricity, the actual performance is very poor. Hydro electric generation is only 69 lakh kW as against the potential of 412 lakh kW. Thus, India is utilising only 1/6 of her potential.

The next important source of energy is atomic energy. At the present level of technology, the mineral which is mostly used for atomic energy is uranium with thorium occupying a second place. The estimated reserve of thorium in India is about 5 lakh tons which is larger than the rest of the total world's reserve. But cost of uranium, the main source of atomic energy, is estimated at only 2,000 tons. The contribution of nuclear power to our total power programme has so far been very meagre. On account of the relatively high capital requirement of nuclear power plants and constraints in heavy water, advanced technological knowledge, machinery and equipment, its pace of expansion has been very slow. The total installed capacity is only 620 mW and it fulfills only 2 per cent of the total needs of our commercial energy.

---

* Professor C. D. Singh is National Lecturer (U. G. C.) and Dean & Head of the P. G. Department of Commerce, Bhagalpur University, Bhagalpur.

** Dr. Y. P. Singh is Reader in Economics, S. P. College, Dumka, Santal Parganas, (Bihar).

In this way, all the sources of energy in India are quite underdeveloped and are not capable of meeting the needs of the country. The seriousness of the situation will be very well realised if the position is viewed in the background of fast growing need for the energy in the country with the pace of development. No doubt our *per capita* energy consumption is low as compared to the other countries, but the pattern of growth over the last two decades indicates the growing energy intensity of our total economic activity. While gross domestic product has grown at an average rate of 3.55 per cent per annum between 1960-61 and 1975-76, commercial energy consumption registered a growth of 6.35 per cent, indicating a relatively high elasticity of 1.8. A major cause for the intensification of energy consumption has been a rapid increase in the levels of electricity consumption in different sectors. We began with a very low base but between 1970 and 1975, the consumption of power per unit increase in G. N. P. in India was among the highest in the world — over twice that of countries like France, Japan and U. K. and well above countries like Germany and U. S. A. The growth of commercial energy consumption in India is presented in the following Table No. 1.

TABLE—1
COMMERCIAL ENERGY CONSUMPTION

Year	Coal in million metric tonnes	Oil in million metric tonnes	Electricity in KWh.
1953-54	28.7	3.7	7.6
1960-61	40.4	6.7	16.9
1965-66	51.8	9.9	30.6
1970-71	51.4	15.0	48.7
1975-76	71.0	17.8	66.0
1976-77	71.4	18.8	73.1
1977-78	75.1	20.1	75.6

Source: Draft Sixth Five Year Plan 1978-83 (Revised) GO 9, Planning Commission, New Delhi, Dec. 1979.

Commercial energy consumption grew at the rate of 6.35 per cent per annum between 1960-61 and 1975-76. Among the three main sources of commercial energy, electricity registered the fastest growth of 9.5 per cent followed by 6.6 per cent for oil products and 3.8 per cent for coal. On account of fiscal and other measures taken by Government, the consumption of oil products remained almost stationery in the period immediately following the rise in oil prices in 1973, but has again shown a tendency to pick up since 1976. In terms of coal replacement, oil products provide even now nearly half the commercial energy consumed in the country, the balance being shared almost equally by coal (excluding

GIFT A GIFT THAT APPRECIATES —

IOB CASH CERTIFICATES

You can buy one for as little as Rs. 37.20 which will grow to Rs. 100/- in ten years.

Drop in at any of our branches. Five minutes is all it takes to buy an IOB Cash Certificate.

Indian Overseas Bank
Good people to grow with

coal used for power generation) and electricity. Given the policy of continued increase in oil prices by OPEC and limited oil reserves and production in the country, the burden of India's balance of payment can very well be imagined.

Naturally the question arises : how this energy crisis be solved? There can be four approaches to energy problem :

1. Development of the energy sources presently available.
2. Conservation and economic use of energy available.
3. Search for the new energy sources.
4. Minimisation of the energy needs by the selection of lesser energy-intensive growth technique.

So far as the question of first alternative is concerned, the preceeding discussion shows that the picture is not very bright. In any field, the limit to development is set by the potential available. The position of coal reserves in our country clearly shows that we cannot expect much from this source of energy. The data given in the foregoing paragraph show that reserves are going to be exhausted very soon even at a modest rate of growth. At the same time, a three or four-fold increase in the production of coal in a period of 20 years requires changes in production technology and in the quality of man power engaged in coal mining, neither of which can be rapidly achieved. The uneven geographical distribution of the coal mines the need to transport large quantities of coal to the different corners of the country will impose a heavy burden on our railway system and require large investments for augmenting the track capacity and the rolling stock.

Our proven reserves of oil and gas are also very limited. No doubt, as exploration proceeds, more reserves may be found, but the prospects are that India would have to depend on substantial imports of crude oil and petroleum products for many years to come in future. The picture regarding hydro electric power and nuclear power is also not brighter. There is general agreement that the country's hydel potential would have to be exploited more fully than has been done in the past. But the long time required for proper investigation of hydel projects and even larger time taken for construction will inevitably mean a relatively slow growth of hydro generation. Besides, a substantial proportion of the untapped hydropotential lies in the remote and geographically difficult sub-Himalayan region in the northern and north-eastern parts of India. A further difficulty is that the optimal exploitation of many of these rivers requires agreements to be arrived at between neighbouring States. A mechanism for quickly resolving of inter-state disputes which drag on for years and which hold up many excellent projects will have to be developed.

Similarly, the country cannot expect much from atomic energy as its development requires huge capital investment, highly skilled labour, very advanced technological knowledge, machineries and equipment which the country lacks. Given our limited reserves of uranium, the potential for nuclear power generation in conventional burner reactors is also not high. Nevertheless in the long term, nuclear energy is bound to play a significant role. For India, a breakthrough in the fast breeder reactor technology will open up possibilities of a large scale development of nuclear power, provided problems of environmental hazards and disposal of spent fuel can be overcome. In order to be able to move into the fast breeder reactor era and to develop a high degree of self-reliance in this area by constantly upgrading our scientific and manufacturing capabilities, and adequate tempo of construction of conventional nuclear reactors would have to be maintained.

It is obvious from this discussion that India cannot expect much from the development of these conventional sources of energy as a solution to its energy crisis in the near future. At the same time, development of these sources of commercial energy is highly capital-intensive. The rapid growth of investment on energy sector from plan to plan shows how costly these projects are.

Increasing investment on energy sector reduced the share of much needed investment on other key sectors of the economy. The country cannot afford to ear-mark an ever increasing proportion of its resources for the energy sector as other urgent needs too have to be met. Thus as regards first alternative, the picture is not very bright. The country cannot think of overcoming its crisis with the present sources of energy.

TABLE 2

Plan	Investment in Rs. crores	% to total public investment
II Plan	452	10
III Plan	1252	14.6
IV Plan	2932	18.6
V Plan (Revised)	10132	25.8
VI Plan (1978-83)	20058	27.6

Source : Various Plan documents.

The second alternative, i e., conservation and economic use of the energy available can also not go a long way in solving the crisis. No doubt, there is some wastage of energy in the country and its economic use may ease the situation but only to a very limited extent. If the eenrgy consumed per unit of production in India is examined, it is definitely much higher than in other countries. The intensity of electricity consumption, defined as the kilowatt hours of electricity used per rupee of value added, increased, at constant prices, from 0 47 in 1960-61 to 0.84 in 1975-76 (Draft Sixth Five Year Plan 1978-83–Revised). The causes for the higher energy consumption may be uneconomic unit size in some industries, obsolete technology, slipshod energy management fostered by the low price of power and protected markets etc. No doubt, energy consumption may be lessened to some extent by improvement in these factors but the energy generation and energy comsumption have to be rationalised.

It is a common knowledge that the proportion of energy spent in the production and distribution of electricity is abnormally high in this country. There can be no question that improvement in the capacity-utilisation of the existing generation equipment can be more cost-effective than addition to new capacity. The plant availability also needs to be improved in most of the generating stations.

Reduction of transmission and distribution losses is another area where more intensive efforts are needed.

Energy consumption per unit of output in certain industries in India is distinctly higher than in other countries. Clearly, this is an area where there is considerable scope for energy conservation. But the sense of urgency to improve the efficiency of energy utilisation is not yet apparent in our industry. Not only the equipment design has to improve but there has to be a much wider awareness of the need to conserve scarce fuels. Measures have to be initiated for drawing up energy consumption norms for various kinds of equipment. The National Productivity Council found, in a recent survey, that furnace oil cosumption in the units surveyed, could be brought down by as much as 25 per cent with better training of the operating personnel and marginal investment on the hardware. Similarly, a survey of agricultural pumpsets has also brought out clearly the need to improve the present low efficiency of many of the makes.

Similarly, in the domestic sector, which absorbs a large proportion of the total energy consumption in the country, the fuel efficiency of the "Chula" and stoves is very poor. Although improved designs of "Chulas" have been evolved by some organisations, they are yet to be popularised. Kerosene stoves which could substantially reduce fuel consumption have recently been introduced in the market, but efforts are required to encourage its widespread adoption.

In this connection, the feasibility of introducing regulatory measures for penalising wasteful energy uses would also have to be examined. And the pricing policy has to be such as to achieve the desired pattern of fuel use; for instance petroleum products should be so priced as to encourage their substitution by coal or removable resources. Efficiency in the energy production and more attention to energy saving is, however, only a partial solution because there are obvious limits to the extent to which one can go. At the same time, given the likely growth of demand of commercial energy, the nation's fossil fuel, hydel and uranium ore resources, as assessed at present will, by the turn of the century, begin to impose constraints on the growth of energy supplies unless new energy sources are developed.

It is quite clear that new energy sources must be developed as rapidly as possible and in particular dependence on imported crude rapidly reduced. Other than nuclear energy, there are five groups of new energy sources which are considered to have potential commercial viability. These are (1) Biomass system e.g. biogas, alcohol and energy plantation (2) photo Voltaic devices such as Solar cells, (3) Solar heat absorption and concentration systems; (4) Photo chemical systems and (5) Wind, tidal and geothermal power.

Out of these five new energy sources the last two—photo chemical systems and wind, tidal and geothermal power—do not at present appear to offer a solution to the energy problem. While research and development efforts will open up new avenues of application of these sources in

Dear Customers,

Wish you a happy and Prosperous New Year

BANK OF MADURA LIMITED

(A major scheduled bank in India)

Transacts all types of banking and foreign exchange business

217 branches all over India.

Grow with the growing Bank!

RM. MUTHIAH,
Chairman.

TABLE-3

(In M. T. of coal replacement.)

Sectors	1953-54	1960-61	1965-66	1970-71	1975-76
Household	12.7	20.8	26.5	35.5	37.4
Agriculture	1.8	3.6	6.3	9.1	18.1
Industries	22.4	39.7	60.8	76.3	101.8
Transport	21.5	34.2	49.7	64.6	85.5
Other Sectors	1.7	2.9	3.7	11.8	9.9
TOTAL :	60.1	101.2	147.0	197.2	252.7

Source : Draft Sixth Five Year Plan 1978-83 (Revised) op. cit.

future, at present the real thrust on new energy sources will be in the first three groups. Bio-gas has a very large potential for development both in rural as well as in urban areas of our country. In rural areas, the input, will be cow-dung, night soil, sewage fermentation. Fermentation technologies develop certain cellulosic crop wastages. Work has been initiated in this field mainly by the Khadi and Village Industries Commission and installation of family owned bio-gas plants has made good progress in a number of states. It is expected that within a short time, design improvements will not only raise the efficiency of gas generation but substantially bring down the capital cost of bio-gas units.

Bio-gas system has a good potential in cities also for treating sewage and other organic wastes, the gas being used as fuel and the residue as fertiliser. Technologies for large-scale sewage fermentation units have been fully developed and in fact, already established in one or two cities as being commercially viable. Apart from the benefits generated by such plants, massive pollution problems which untreated sewage discharge into the rivers and coastal waters would themselves justify the setting up of such facilities.

Technology for converting waste materials such as molasses into alcohol are well known. Technologies for converting cellulosic and carbohydrate materials are also known and can be developed for producing a number of chemicals besides alcohol, e.g., acetone. Given the rapid increase in petroleum prices, it is more than likely that this route will once gain become viable. Other than conversion of coal into petroleum products, fermentation at present presents a potentially practicable option for replacing high speed diesel as a source of fuel for transportation systems. Engines for commercial vehicles and generators which can operate largely or exclusively on alcohol have to be developed.

At present, solar cells are too expensive to be used for applications other than highly selective ones such as power packs for satellites. But the prospects are bright that before long solar cells will prove to be viable sources of electricity for rural applications. Similarly, regarding solar eaergy devices like absorbers and reflectors, considerable headway has been made and several plants have been built which hold out promise of approaching commercial viability in the near future.

Thus, it is clear that all the new sources of energy presently in sight are not going to solve our problem in the near future. No doubt, we may hope that an effective alternative will emerge in the distant future. But the problem is of such a nature that it requires no time to be lost as the country has to face the challanges in the next two decades. So if the country's economic growth is not to be constricted by inadequacies in energy supply, we have to think of the last alternative. The question is whether we can afford to continue along a growth which is making increasing demands on energy or whether we need to evolve a structure which reduces our dependence on energy. Though energy is a critical input for economic development, the demand for energy cannot be allowed to grow in an unrestrained manner.

The working Group on energy policy has estimated that even with a modest average economic growth rate of about 6 per cent, commercial energy consumption, in the absence of a deliberate strategy to shift towards less energy intensive model of growth and positive steps aimed to achieve more efficient use of energy, would quadruple itself between now and the year 2000 AD. This would mean a four-fold increase in electricity generation, a three fold increase in the consumption of oil products requiring an annual import of 50 to 60 million tonnes and a requirement of coal excluding 400 million tonnes a year. India, with her limited reserves of fossil fuels, cannot meet this bill.

Therefore, India has to minimise its needs of energy by the selection of a lesser energy-intensive growth technique. The basic structure of economic growth has to be changed and in the jet-age technology we have to opt for small or medium sized technology which consumes lesser energy. Till now, the famous Mahalnobis model guided the development strategies under planning in India. The emphasis was on the development of large-scale industries which imitated highly complicated western technology and consequently, the consumption of energy per unit of production rose more than the rate of growth itself. If we look at the energy consumption pattern of different sectors of the economy in India, it will clearly show that it is the industrial sector which not only shares the highest amount of energy consumption but has also recorded the fastest rate of growth in respect of energy consumption. The following table will prove the point:

The table shows that industries and transport sectors together account for nearly three-fourths of the commercial energy consumption. The phenomenon of a rapidly rising power intensity is most marked in the industrial sector and this is perhaps a major cause for the intensification of energy consumption in India during the recent years. So, if we are to avoid further deepening of this crisis, we must shift from the Mahalnobis model of growth to the Gandhian model of growth. The use of human power in place of mechanical power has to be emphasised. This seems to be the only solution to the energy crisis, from the short term point of view. We have no option but to minimise our needs of energy by the adopting the "small is beautiful" technology in place of highly sophisticated jet-age technology.

We believe every fertilizer plant can be an additional source of power.

Because BHEL's industrial turbine generator sets for the Fertilizer industry have a special provision for injection of steam so that the excess steam in the network can be effectively put to use for power generation. And that's just another instance how BHEL is keeping itself 'in time with time' by serving not just power but a wide variety of industries.

BHEL, Hyderabad manufactures not just compressors and drive turbines, but also reaction type multistage high speed industrial turbines to drive generators and boiler feed pumps.

In-house source of power
As a singular feature, there's special provision in the turbines for injection of steam, so that the excess steam in the network can be put to economical use for additional power generation. What's more, the steam required for the process can be obtained as an extraction from the turbine.

Advantages continue BHEL style
BHEL, Hyderabad meets the specific customer needs for various applications from its wide range of industrial turbines with modular designs—with proven standard components that facilitate easy maintenance.

It also manufactures turbines to such international standards as IEC, API, NEMA, VDI.

A unique feature from BHEL
The generators used in the industrial turbine sets have resin-rich thermosetting insulation with high dielectric and right mechanical properties.

Remember too, BHEL is the only manufacturer who can provide both turbine and generator together with all the auxiliaries.

Some of BHEL-Hyderabad's customers
Rashtriya Chemicals and Fertilizers, Fertilizer Corporation of India, Hindustan Fertilizer Limited, National Fertilizers Limited, Indian Farmers Fertilizer Co-operative Limited, Gujarat Narmada Valley Fertilizers Company Limited are but a few of the clients that have taken from BHEL drive-turbines built on specifications of the world's leading consultants like Fertilizer (Planning and Development) India Ltd., Development Consultants India, Engineers India Ltd, Tata Consulting Engineers, Humphreys & Glasgow Ltd of UK; LINDE of West Germany, Pullman Kellogg of USA, Snamprogetti of Italy, Toyo Engineering, Japan, and UHDE of West Germany.

BHEL-Hyderabad has also won successive orders against tough international competition for a number of world bank aided projects in India.

The range
BHEL-Hyderabad today manufactures turbine generator sets of anything from 1.5 MW to 60 MW; voltages 440V to 11KV.

For further details please contact:
Sr. Manager, Commercial (Industrial Products)
BHARAT HEAVY ELECTRICALS LIMITED
Heavy Power Equipment Plant
Ramachandrapuram
Hyderabad 500 032

More than products, a total service for energy

Registered Office:
18-20 Kasturba Gandhi Marg,
New Delhi 110 001

SAA/BHEL/695

Challenge of the Oil Crisis: How to Meet It

By **B. S. Sreekantaradhya** *

The 'oil crisis' refers to the situation arising from the quadrupling in 1973-74 and more than doubling in 1979-80 of the oil prices by the OPEC. India is one of the countries most seriously affected by the oil price hike and the situation arising from this is the most widely discussed topic among the contemporary issues. An attempt has been made in this paper to bring out the price effect and the balance of payments effect of the oil price hike and to highlight the measures needed to meet the challenge posed by the oil crisis.

WITH just 0.1 per cent of world oil reserves (Prior to Bombay High discovery), India's known oil reserves are very poor.[1] Though oil production in India has a history of over hundred years, progress in oil exploration has been tardy and even oil production has registered a modest increase only in recent years. As pointed out by the Planning Commission, "....oil production which stood at a meagre 0.51 million tonnes in 1961 rose to about 5.6 million tonnes by the end of the Third Plan, 7.9 million tonnes by the end of the Fourth Plan and 10.63 million tonnes in 1977-78".[2] In 1979, oil production increased to 12.84 million tonnes.[3] While oil production has registered a tardy progress, consumption of oil for both energy and non-energy uses has been rising rapidly even though *per capita* consumption of oil in India remains among the lowest in the world. Consumption of oil for energy and non-energy purposes increased from 3.9 million tonnes in 1953-54 to 30.03 million tonnes in 1979-80.[4]

Despite the rise in oil prices, the average annual increase in oil consumption amounted to 9.8 per cent during 1977-78 and 1978-79 as against 6.75 per cent during 1975-76 and 1977-78.[5] The working Group on Energy (Prasad Committee, 1979) appointed by the Planning Commission has estimated that the demand for oil would increase from 35.47 million tonnes in 1982-83 to 92.66 million tonnes in 2000-2001 according to Reference Level Forecast and from 35.37 million tonnes in 1982-83 to 69.11 million tonnes according to Optimum Level Forecast.[6]

Indigenous production of oil is woefully inadequate relative to the rising consumption needs and consequently considerable part of total requirement is met by imports. From 7.49 million tonnes in 1974, indigenous production of crude oil increased to 12.84 million tonnes in 1979 whereas imports of crude oil increased from 13.97 million tonnes to 15.46 million tonnes during the same period.[7] It is evident from this that following the oil price hike, attempts have been made to increase indigenous production of crude oil and to permit a limited increase in its imports. The per centage of imported oil to total oil consumption decreased from 65.1 in 1974 to 54.6 in 1979.

However, given the constraint on indigenous production of oil on the one hand and the anticipated rise in demand for oil for both energy and non-energy uses, it is inevitable to rely on imports of significant quantity. Assuming that it would be possible to maintain a production of 30–40 million tonnes a year over a period of 20–25 years, hardly 50 per cent of the anticipated demand for oil can be met out of indigenous production. It is in this context that it is necessary to examine the effects of the rising prices of oil imports.

II

Trends in Oil Prices

The era of cheap oil came to an end with the decision of OPEC during 1973-74 to quadruple the oil price. The posted price of Saudi Arabian light crude oil which had remained at $ 1.80 per barrel since 1960 increased to $ 2.18 in February 1971 and thereafter till 1973 there was a marginal rise. It was raised to $ 5.14 in November 1973 and to $ 11.65 in January 1974 and the era of dear oil began with this.[8] The rise in the price of oil between January 1973 and January 1974 was of the order of 350 per cent. In early 1979, the posted price was raised to $ 13.34 per barrel and again in July 1979 OPEC took a decision to raise the price to between $ 18.00, Kuwait's at about $ 19.50, Iran's at $ 22.20 and the African light crudes at about $ 23.50.[9] In December 1979, Saudi Arabia raised the price to $ 24.00 per barrel and some of the members of OPEC raised it to as much as $ 30 00.[10]

The rise in the price of oil since 1974 has obviously led to a rise in the price at which oil is made available for consumption in the country and in addition, taxes have been levied at substantially high rates with a view to curbing the rise in demand for oil. Immediately after the hike in the international prices of oil, the administered prices of petroleum went up in India. Upward adjustments in administered prices resulted in a rise in the price of fuel oil per Kilo litre from Rs. 232.78 on July 1, 1972 to Rs. 604.2 per Kilo litre on July 1, 1974.[11] Further, the prices of crude oil and petroleum products were raised in June 1980 and again in January 1981 to adjust to higher international prices.[12] Even though the international price has not been raised, effective July 11, 1981 the prices of Petroleum products have been raised by the Government of India to enable the oil sector to mobilise additional revenue on its own to the extent of Rs. 250 to 300 crores to finance its ambitious oil exploration programme, to curb the rising consumption of petroleum products and to reduce the wide gap that exists between the international price of crude and the price offered to ONGC for the indigenous crude.

---

* Dr. Sreekantaradhya is Reader in Economics, Department of Economics, Post-Graduate Centre, B.R. Project, Shimoga - 577 115.

III

Impact on the Price Level

A very serious inflationary situation has been prevailing in India and the oil price hike occupies an important place among the factors responsible for this situation. The current inflationary situation being largely the result of the oil price hike, it is rightly called the 'Oil Push' inflation. The immediate impact of the oil price rise is on the prices of those products which use petroleum products as inputs and on transport costs which push up the costs of production in general and also necessitate a rise in wages. The rise in wages leads to a further rise in prices and thus the oil price hike leads to an upward spiralling of prices in general. It is because of its cascading effect that the oil price rise is a crucial factor affecting the price situation.

A look at the movements in the wholesale price indices of Groups and Sub Groups taking 1970-71 as the base makes it abundantly clear that the 'Fuel, Power, Light and Lubricants' group has registered a very substantial increase since 1973-74. While the wholesale price index of all commodities increased from 105.6 in 1971-72 to 174.9 in 1974-75 and to 217.62 in 1979-80, that of the group 'Fuel, Power, Light and Lubricants' increased from 106.0 in 1971-72 to 198.0 in 1974-75 and to 283.0 in 1979-80.[13] The per cent variation of wholesale price index in respect of this group in 1974-75 (the year in which the full impact of the international oil price rise was felt) over 1973-74 was 51.8 and again it was 20.7 in 1980.81 over 1979-80.[14] The percentage share of petroleum group in the overall price rise has been very substantial. According to the *Economic Survey* for 1980-81, "The contribution of the increase in administered prices of petroleum crude, petroleum products and fertilisers to the overall rise in the all commodities price index during 1980-81 (upto January 17, 1981) is estimated at 30.6 per cent".[15]

IV

Impact on Balance of Payments

The most significant impact of the oil price hike is on the balance of payments of the country.[16] While the total import bill increased from Rs. 1,634.2 crores in 1970-71 to Rs. 11,300 crores in 1980-81 registering nearly a sevenfold increase, that of the POL (Petroleum Oil and Lubricants) import bill increased from Rs. 135.9 crores to Rs. 5,600 crores during the same period registering an increase by over 40 times. The percentage increase in the total import bill was very substantial during those years in which the international prices of oil were raised. It was 58 26 per cent in 1973-74 over 1972-73, 52.89 per cent in 1974-75 over 1973-74 and again 29.06 per cent in 1979-80 over 1978-79 and 28.48 per cent in 1980 81 over 1979 80.

That the hike in oil prices is the main factor responsible for such percentage increase in total import bill is evident from the fact that the percentage increase in the POL import bill in 1973-74 over 1972-73 was as much as 174.65 and 106.47 in 1974-75 over 1973-74 and again 80 31 in 1979 80 over 1978-79 and 85.21 in 1980 81 over 1979-80. Further, the percentage of POL imports to total imports increased from 8 26 in 1970-71 to 25.58 in 1974-75 and to 49.50 in

TAX DEDUCTION AT SOURCE IS OBLIGATORY

IF YOU are responsible for paying any

☐ SALARIES

☐ INTEREST exceeding Rs. 1,000/- by credit or otherwise (other than Interest on Securities)

☐ AMOUNT TO A CONTRACTOR OR SUB-CONTRACTOR by credit or otherwise where the value of the contract exceeds Rs. 5,000/-.

☐ WINNINGS exceeding Rs. 1,000/- FROM LOTTERIES OR CROSSWORD PUZZLES, OR FROM HORSE RACING in excess of Rs. 2,500/-.

☐ OTHER SUM TO A NON-RESIDENT (other than Interest on Securities or Dividends).

You are liable:

○ to deduct tax at the appropriate rate therefrom.

○ deposit the tax deducted to the credit of Government within the time allowed.

○ file the appropriate statement with your I.T.O., indicating the deduction made

Meet your liability well in time

DEFAULT ATTRACTS PENALTY

For further details and guidance approch your I. T. O., or the P.R.O. in the office of the Commissioner of Income-tax.

For attention of recepients

If you are in receipt of any income from the sources mentioned above and your total income justifies deduction of tax therefrom at a lower or NIL rate, you can approach your I.T.O. for a certificate showing such lower rate applicable to you and the person paying the income will then deduct tax only at that rate.

PAY TAXES RIGHT-BUILD NATION'S MIGHT

Director of Inspection
(Research, Statistics, & Public Relations)
Income-Tax Department, New Delhi-110 001

davp 81/227

1980-81. At present, POL imports account for nearly 50 per cent of the total import bill. When a single item accounts for half the total import bill, a reduction in the imports of other essential items has become inevitable with adverse effects on the rate of growth of the economy.

The proportion of export earnings absorbed by the POL imports clearly indicates the impact of the oil price hike on the balance of payments. The percentage of POL import cost to export earnings which amounted to just 8.85 in 1970-71 increased to 22.20 in 1973-74, 34.75 in 1974-75 and after a modest decline between 1975-76 and 1978-79, it again increased to 47.04 in 1979-80 and to as much as 79.22 in 1980-81 and the day is not far when even the entire export earnings would not be sufficient to foot the oil bill. Trade deficit has increased over the years and even though receipts on account of invisibles have substantially increased, overall balance of payments deficit is tending to rise and this situation is likely to continue in view of the sluggish exports and foreign remittances. The declining trend in the foreign exchange reserves which again is mainly due to the rising cost of oil imports has added further to the payments problem that the country has been facing in recent years.

The transfer problem arising from the oil price rise can be met if the oil exporting countries which earn huge amount by raising the oil price increase their imports from the oil importing countries or if the oil importing countries succeed in getting higher prices for their exports to the oil exporting countries. A look at the direction of India's trade shows that the increasing imports from OPEC have not been matched by the increasing exports to OPEC. While India's exports to OPEC increased from Rs. 103.00 crores in 1970-71 to Rs. 858.79 crores in 1979-80, India's imports from OPEC increased from Rs. 125.85 in 1970-71 to Rs. 2,357.50 crores in 1979-80 giving room for a continuous increase in the gap between exports and imports. Excess of imports over exports which accounted for Rs. 22.85 crores in 1970-71 increased to Rs. 1,498.71 crores in 1979-80. If we take the major suppliers of oil to India among OPEC members, excess of imports over exports in the case of Iran increased from Rs. 64.99 in 1970-71 to Rs. 519.85 crores in 1979 ; from Rs. (–) 6.54 crores in 1970-71 to Rs. 798.73 in 1979-80 in the case of Iraq and from Rs. (–) 10.12 crores in 1970-71 to Rs. 31.62 crores in 1979-80 in the case of Kuwait.

V

Policy Measures

The price effect and the balance of payments effect of the oil crisis clearly indicate the need for curtailing oil imports and for a vigorous export drive. The following are some of the measures needed in the oil sector and the energy sector in general for meeting the challenge of oil crisis :

(a) Indigenous oil production has to be stepped up substantially in order to check the rise in oil imports. But the present known reserves being limited, stepping up of oil production is linked up with the success in oil exploration. It is evident from the history of the oil industry in India that the efforts made for oil exploration were negligible under the British rule and even after independence so long as the oil industry was under the control of foreign companies, not much attention was given because in terms of cost of production, OPEC nations were more attractive than non-OPEC nations for investment. A recent assessment by an Indo-Soviet team puts the oil potential of the country at 5,900 million metric tonnes (45 billion barrels) and natural gas potential at 7,500 billion cubic meters.

The assessment also shows that about 70 per cent of the potential is off-shore of which only about 15 per cent has been explored so far. Since there is still vast scope for oil exploration in the country, a vigorous exploration effort can be made by making use of foreign collaboration in such a way that it does not unduly affect our interests. Intensification of oil exploration is urgently called for and the stepping up of indigenous oil production in the long run depends essentially on the success in this regard. Since the country has large coal reserves, the possibility of production of petrol and diesel through coal liquefaction has to be fully explored.

(b) A vigorous oil conservation policy is another important measure as the limited oil reserves have to be utilised with utmost care and as economy in the use of oil has to be achieved. Development of public transport system, increasing the railway and water transport facilities especially for freight traffic, replacement of diesel in railways by coal, the reserves of which are abundant in relation to oil reserves, stopping of the use of oil for electricity generation even though its use at present is only to a limited extent, minimisation of the use of oil in the agricultural sector by employing suitable alternative sources of energy, reducing the dependence on Kerosene as illuminant and cooking fuel, creation of public awareness about the need for energy conservation, reduction in the energy intensity in Indian industries which is very high at present, replacement of fuel oil fired boilers by coal fired boilers are some of the measures needed for achieving economy in the use of oil. The National Productivity Council and the Petroleum Conservation Research Association have established the possibility of achieving substantial economy in the use of oil and with the help of these organisations a national policy in respect of energy conservation should be evolved.[17]

(c) Even with the best of exploration and conservation efforts, the long run problem of oil shortage eludes a solution. Therefore in order to substitute other fuels for oil wherever possible, a massive effort on a war footing is needed to develop alternative sources of energy such as solar energy, wind power, hydrogen energy, nuclear energy, energy from Biomass, and the technological breakthrough needed for this has to be achieved. This challenging task should be taken up with greater urgency by the Committee for Additional Sources of Energy (CASE) which has been recently set up to formulate policies and programmes for development of new and renewable sources of energy.

Apart from the above measures, massive effort on the export front is also needed in order to earn the foreign exchange required to pay for oil which has to be inevitably imported for many more years. Not only the export quantity has to be increased, but also higher prices for exports have to be secured by strengthening the bargainning capacity with the OPEC as well as non-OPEC nations. No commodity among India's exports being really suitable for cartellisation, securing higher prices for exports is difficult.

The prices of certain commodities are in fact going up. But such commodities being absent in India's export basket, it is not possible to take advantage of this trend.[18] Though the export prospects for traditional items are bleak, the prospects for engineering goods exports appear to be bright in view of the rising demand for these items in several countries of the world. The Engineering Export Promotion Council has set an ambitious target of 25 per cent annual steady growth rate in engineering exports during the current decade. According to this target, it is expected that the value of engineering goods exports will increase from Rs. 915 crores to Rs. 24.50 crores in 1984-85. The possibilities of stepping up of foreign exchange earnings by executing turnkey projects, offering consultancy services and by setting up of joint ventures abroad have also been identified. Concerted efforts are needed to take full advantage of these possibilities in order to acquire the capacity to foot the rising oil import bill.

VI

Conclusion

The major conclusions of the preceding discussion may be summarised as follows: The oil crisis has been one of the major factors responsible for the present situation of rising prices and the worsening balance of payments position. Given the country's oil position on the one hand and the oil price policy of the OPEC on the other, the oil prices will continue to affect the price situation and the balance of payments position and thereby hamper the growth of the economy. The challenge posed by the oil crisis has to be met on the whole through substantial reduction in the oil imports which is obviously possible only through intensification of oil exploration, stepping up of indigenous oil production, appropriate energy conservation policy and development of alternative sources of energy to minimise the use of oil.

Even with the best of efforts, complete import substitution is almost impossible in the near future and continued dependence on imported oil to meet a part of the total requirement appears inevitable and therefore one more set of measures urgently called for relates to stepping up of foreign exchange earnings through export promotion, execution of turnkey projects and setting up of joint ventures abroad and offering of consultancy services, the possibilities of which have been identified.

REFERENCES

1. Wallace E. Tyner, *Energy Resoucres and Economic Development in India*, Martinus Nijhoff Social Sciences Division, Leiden/Boston, 1978, p. 23.

2. Planning Commission, *Draft Sixth Five Year Plan 1978-83*, p, 331.

3. D. B. Mahatme, "Oil: Who cares for Tomorrow," *Commerce*, October 18, 1980, p, 751.

4. Report of the Working Group on Energy, 1979 and Indian Oil Corporation, Cited in D. B. Mahatme, "Oil: Who cares for Tomorrow," *Commerce*, Ocotober 18, 1980, p. 749.

5. *Ibid.*

6. *Ibid.*

7. Reserve Bank of India, Report on Currency and Finance 1977-78, p. 16 and *Commerce*, October 18, 1980, p. 751.

8. S. L. N. Simha, *Oil, International Payments and Reform*, IFMR, Madras, Table 3.3, p.53.

9. Cited in Robert S. Dohner, "Energy Prices, Economic Activity and Inflation, A Survey of Issues and Results," in Knuf Anton Mork (Ed.). *Energy Prices, Inflation and Economic Activity*, Baltinger Publishing Company, Cambridge, Massachusets, 1981, p. 12.

10. *Ibid.*

11. *Annual Report of the Reserve Bank of India, 1973-74*, p. 32.

12. Government of India, *Economic Survey, 1980-81*, p. 3.

13. *Ibid*,, p, 109.

14. Government of India, *Economic Survey, 1976-77*, p. 18 and 19780-81, p. 27.

15. Government of India, *Economic Survey 1980-81*, p. 28.

16. All the Statistical data used in this section are compiled from the relevant Tables in *Economic Survey* 1976-77 and 1980-81.

17. See. M. Krishna Murthy and P. R. Srinivasan, "Need for a National Level Policy for Energy Conservation in developing countries," in R. K. Pachauri, *International Energy Studies*, Wiley Eastern Ltd., New Delhi, pp. 243–249.

18. See. Alasdair MacBean, "Trade Prospects for Developing Countries after the Rise in Oil Prices," in T.M. Rybezynski (Ed.). *The Economics of the Oil Crisis*, The Macmillam Press Ltd , 1976, pp. 65-91.

HIGHER OUTPUT OF WHEAT, RICE IN 1980-81

India produced 129.87 million tonnes of foodgrains in 1980-81. This marks an increase of 18.4 per cent over the previous year's production of 109.70 million tonnes. The final estimates of the output for 1980-81 put the wheat yield at 36.46 million tonnes. This exceeds by almost half a million tonnes the earlier estimates of 36 million tonnes. In 1979-80 the latest revised estimates place wheat production at 31.83 million tonnes. The final estimates for rice production in 1980-81 placed at 53.2 million tonnes, higher by as much as 25.8 per cent over the previous year. This is about one per cent lower than the previous record production of 53.77 million tonnes achieved in 1978-79. The production of coarse cereals in 1980-81 is higher than the last year by 7.6 per cent, though it falls short of previous best by a margin of 4.7 per cent. The output of pulses in 1980-81 has been reported at 11.17 million tonnes marking a rise of 30.3 per cent over the previous year's production of 8.57 million tonnes.

India's Atomic Energy Programme: Past, Present and Future

By **H. N. Sethna** *

India had forseen the potential for the peaceful uses of atomic energy at a time when most of the countries had geared their efforts to use it for military purposes. Concerted efforts to develop a dedicated cadre of scientists and engineers capable of harnessing nuclear power for the nation's development has enabled the country to be among the seven or eight countries in the world to have the complete nuclear fuel cycle. The dependence on imported components for the country's nuclear power plants has come down from 45 per cent to 9 per cent. The atomic energy programme has also played the role of a catalyst for the scientific, technical and industrial advancement. According to Dr. Sethna, the restrictions sought to be imposed on India's peaceful nuclear programme by certain foreign powers are likely to cause temporary delays and cost over-runs but they would indirectly help to bring about self-sufficiency in this field.

INDIA had foreseen the potential for the peaceful utilization of atomic energy at a time when the pioneering activities in this field were geared essentially for military use. More than a year before the traumatic demonstration of the destructive force of atomie energy in Hiroshima, Dr. Homi Bhabha, the architect of the Indian nuclear programme, had declared that "when nuclear energy has been successfully applied for power production in say, a couple of decades from now, India will not have to look abroad for its experts but will find them ready at hand". This statement captures the essence of India's efforts over the last three decades for the peaceful utilization of atomic energy, namely, the development of scientific and technological ability within the country to design and execute projects right from the laboratory stage to the industrial scale largely on the basis of its own efforts.

Today, India is among the seven or eight countries in the world, and the only developing country, to have the complete fuel cycle, right from uranium exploration, mining, extraction and conversion, through fuel fabrication, heavy water production and reactors, to reprocessing and waste management. India has also reached a stage where its indigenously developed know-how can support all the required activities encompassing feasibility studies, site selection, detailed project design, construction, commissioning and operation of any plant in the entire fuel cycle chain. The innumerable hurdles to be overcome along the way have given our scientists and engineers confidence that other difficulties, which may have to be faced in the future, can be surmounted.

India has had a rich tradition of fundamental research activities in various fields and has produced outstanding individual scientists like Sir C.V. Raman, S.N. Bose, K.S. Krishnan, Sir J.C. Ray and H.N. Saha. Organized research in nuclear science, however, began only in 1945, with the establishment of the Tata Institute of Fundamental Research in Bombay. The Atomic Energy Act was passed in Parliament soon after the country gained independence in 1948, and set forth India's objective for the development and utilization of atomic energy solely for peaceful purposes. It was, however, only in 1954 that the Government established a Department of Atomic Energy charged with the sole responsibility for all nuclear activities in the country. Until that time the work of the Atomic Energy Commission had been restricted to the survey of radioactive minerals, setting up plants for processing monazite and limited research activity in the area of electronics, methods of chemical analysis of minerals and the recovery of valuable elements from available minerals.

In 1954, a multi-disciplinary centre for research and development was set up in Trombay, near Bombay, which is now known as the Bhabha Atomic Research Centre (BARC). The beginnings were modest. This Centre was initially manned by a small band of around 130 scientists and technicians. The Bhabha Atomic Research Centre has grown over the years to become the foremost institution of science and technology in the country with a staff of around 10,000, of whom 3,000 are scientists. A majority of these scientists and engineers are graduates of the Training School set up at the Centre in 1957.

A common dilema of developing countries has been that technology imported from industrialized countries is often difficult to adapt to local socio-economic conditions. Such technology transfers can sometimes even hamper scientific innovations and entrepreneurial initiative for indigenous development leading to repeated technology imports. Most developing countries do not have adequate financial resources for establising their own R & D efforts. The few developing countries that have the financial resources are, by and large, short of manpower and without adequate educational infrastructure. Another constraint which all developing countries have had to face is the absence of a diversified industrial base. In the developed countries, the frontier applications of nuclear technology were essentially an extension of already advanced conventional technology. On the other hand, even in India the era of nuclear power is concurrent with the beginnings of large-scale steel production, installation of fertilizer plants and other conventional industry set up with imported know-how. We had realized that the superimposition of advanced technology obtained from abroad does not imply progress in the real sense it only creates illusions of progress. We recognized at an early stage of development that, due to these and various other factors, the most important task for the introduction of nuclear technology in India was to establish a cadre of scientists and engineers and generate interaction among various scientific disciplines and, at an appropriate stage, translate this interaction into concrete projects.

---

* Dr. Sethna is Chairman, Atomic Energy Commission, Govt. of India.

It was in this spirit that the first major project of the Centre was undertaken, namely, the building of a pool-type reactor. This reactor, named APSARA, became critical by 1956, within two years of the decision to construct it. It was the only reactor at that time in Asia, outside the Soviet Union. We did not ask for such a reactor from the advanced countries but went about the work on our own. Except for the fuel elements, which were imported from the United Kingdom, the reactor and all its equipment were designed and built by our own people within the country. It was not an easy task. For instance, in the mid-1950s we had no experience in India on welding thick aluminium plates to the quaility requirements for the reactor. Our engineers engaged on this job had to establish welding procedures and then train the welders themselves. Some of the early applications of argon arc welding involving aluminium and stainless steel were made on this and other projects at the Centre. The entire instrumentation and control system for the reactor was designed and built locally. The team of scientists engaged in this work drew upon their previous experience in designing instrumentation for cosmic ray experiments. This early experiece has been mentioned in some details, since it demonstrates that with the multi-disciplinary interaction involved in the setting up of this first reactor, our learning process started well before the reactor became critical and available for experimental work and isotope production.

About the same time, in 1956, we decided to build CIRUS, a 40 MW natural uranium heavy-water moderated research reactor, with Canadian collaboration. Our scientists were associated with the Canadians at all stages of this cooperative project. We simultaneously embarked on the task of setting up plants at the Centre, fully based on our own technology, for producing nuclear grade uranium metal and fuel elements for this NRX-type reactor. We completed this task in time to provide half the initial fuel charge for this reactor, which became critical in mid-1960. The CIRUS reactor continues to be in operation to this day using fuel produced at the Trombay plant and heavy water from the facility we set up at Nangal in Northern India.

In the decade 1956-66, we embarked on a wide variety of technological activities such as uranium extraction and purification, fuel fabrication, reactor control and instrumentation, research reactor construction, radioisotope separation, radiation medicine and vacuum technology. Practically all these areas of technology were frontier areas even in the context of developments at that time around the world.

In 1961 we commenced work for setting up a reprocessing plant at the Centre completely on our own and without any foreign collaboration. The plant was successfully commissioned in 1964, making India the fifth country in the world with reprocessing facilities. Incidentally, the cost of this plant was less than half the estimated cost of a similar capacity plant under construction at that time in another country. Our subsequent experience in the construction of a power reactor reprocessing plant has confirmed our ability to set up and operate small capacity reprocessing plants at costs lower than indicative reprocessing costs elsewhere in the world.

The decade 1966-76 saw the introduction of nuclear power in India. When early studies on the feasibility of nuclear power were carried-out in the late 1950s and early 1960s, it was concluded that threshould conditions for introducing nuclear power on an economic basis existed in India in the western, northern and southern regions of the country. These regions were chosen because of their distance from coal fields, which are largely concentrated in the eastern and central parts of the country. With increases in oil prices power production using oil became unfeasible. It was, therefore, recognized that power production in India would have to continue to rely on coal and hydro and, increasingly over the years, on nuclear power.

In formulating the strategy for nuclear development in India, we had to take into account that, while our uranium reserves are rather modest (53,000 tonnes of which 30,000 are reasonably assured) we have one of the largest reserves of thorium in the world. We therefore conceived a three-stage nuclear fuel cycle strategy, with the installation of natural uranium reactors in the first phase, followed by fast breeder reactors in the second phase, using plutonium from the first generation reactors with either uranium-238 or thorium in the blanket, followed eventually by reactors based on the self-sustaining 'thorium-uranium-233 cycle.

India is one of the few countries at present continuing with the development of natural-uranium-fuelled reactors. The major reason has been our preference for a reactor system that can be operated using indigenous resources. This system also has the advantage of an efficient burnup producing significant quantities of plutonium for use in fast reactors.

India's first nuclear power station at Tarapur, near Bombay consisted, however, of two boiling-water reactors (BWR), each of about 200 MWe capacity, which went into operation in 1969. The decision to go in for a BWR system for our first nuclear power plant was prompted by the desire to demonstrate the economic viability of nuclear power in the country without delay by using a proven system. This station was a turnkey project awarded to General Electric of the USA on the basis of a global tender. The involvement of Indian personnel was, however, substantially more than the usual turnkey project. Our scientists and engineers were responsible for all the preliminary work such as site selection, tender preparation and evaluation and also perticipated, to the extent possible, in the review of detailed designs, construction, inspection and testing of equipment and commissioning activities. Since 1975, the enriched uranium fuel elements for this station have been fabricated in India at the Nuclear Fuel Complex in Hyderabad from uranium hexafluoride imported from the USA. We had not gone in for the development of indigenous enrichment capability primarily since a commercial scale enrichment plant would not be economically feasible for only one power plant for which, in any case, we had entered into an agreement for life-time fuel-supplies.

About the same time as a commitment was made on the Tarapur plant, we also decided to install a heavy-water power station at Kota in the State of Rajasthan consisting of two 220 MWe reactors. In this case, the project was a collaborative venture with Canada. India retained the responsibility for construction and installation activities while Canada undertook to supply the design and major equipment. We took the risks involved not only on the prices and schedule that such a procedure entailed but also in the capital investment on a system which was in its initial stages of development. While major equipment for the first unit of this station was imported, part manufacture of some of the major components was undertaken in India. We also fabricated many items of auxiliary equipment and half the initial fuel charge for the first unit. The efforts to rely on indigenous resources were intensified for the second unit of this station and major components such as the calandria, end shields, steam generators and fuelling machines were manufactured in the country. The first unit of the Rajasthan station has been in operation since 1975 and the second unit is in an advanced stage of commissioning.

Our third atomic power station, consisting of two heavy-water reactor units of 235 MWe each, the first of which is expected to attain criticality next year, is being built near Madras. The full responsibility for the execution of this project rests with our own engineers and scientists. Several design modifications and improvements have been introduced at this plant for reasons of economy and to take into account local conditions. The fourth power station under construction at Narora in the State of Uttar Pradesh in Northern India also consists of two 235 MWe heavy-water reactors. These reactors have several new design features and concepts, including earthquake resistant design of the building and reactor components. Among the new features of the Narora reactors are an integral calandria-end-shield assembly, two independent fast-acting shut down systems for safety and reliability and a simplified water-filled calandria vault. We are standardizing the Narora designs and propose to repeat this design for two additional projects before we move on to construction of 500 MWe reactors of our own design.

As a result of intensified efforts at using our own resources, we have progressively reduced the import component of our nuclear power projects. The import component of the first unit of the Rajasthan station was 45 per cent, and this was reduced in the case of the second unit to 30 per cent. The import component declined further to 12 per cent for the Madras power station and it is only around 9 per cent for the Narora plant. Even this marginal import will be eliminated once the new manufacturing capability also helped us to reduce indirect costs of engineering, field management and commissioning, which usually form a substantial part of a turnkey project. For instance, we were able to reduce the cost of engineering as a percentage of cost per kilowatt installed from around 15 per cent for the first unit of the Rajasthan station to less than 6 per cent for the Narora plant.

Nuclear power in India has not only been demonstrated as an economically competitive and safe source of energy but it has also played the invaluable role of a catalyst for the scientific, technical and industrial development of the country as a whole. Pioneering work in the field of process and equipment design for various chemical operations or metallurgical activities were carried out by the Department of Atomic Energy. The success of our national effort has made our industry, both in the private and public sector, conscious of its potentialities for excellence. There was a significantly higher level of quality consciousness and improvements in the shop practices of almost all manufactures who have been associated with out programme.

Work in the fields of nuclear fuels and materials has also generated internal demands for advanced materials of construction and for the means of producing them. For instance, the techniques developed for the extrusion of Zircaloy has found application in the extrusion of alloy steel tubes for use in petroleum industry. The experience gained in the operation of highly instrumented plants in the nuclear industry permit local design of various chemical plants. Our expertise in vacuum melting and casting of uranium could be useful for the production of metals and alloys of controlled composition and to the progress of powder metallurgy. Even in the conventional field of civil construction, the experience gained on our nuclear projects has resulted in the mastering of new techniques. One example is in the field of pre-stressed concrete. The reactor buildings at the Madras station are built completely in pre-stressed concrete for a designed internal pressure containment of over one atmosphere.

Our reactors in operation and under construction presenilty account for only about 1300. MWe of installed capacity. The "high" estimate for our projected installed capacity at the turn of this century is a relatively modest 10,000 MWe, of which 3000 MWe is expected to be provided by fast breeder reactors. This will not be an easy task. Although we can build nuclear power plants at lower investment costs than are achieved in other parts of the world, the initial investment required and the gestation periods involved are still greater than those for coal-fired power stations. In the longer run, investment in nuclear power is expected to increase as mining and transport of coal in the next few decades becomes progressively more capital-intensive.

HOPE LIGHTS A CANDLE :
WILL IT MAKE A CAREER ?

CANARA BANK

75 YEARS

When the hands of poverty get hold of a master mind, one more outstanding brain descends into nothingness.

CANARA BANK's philosophy sought to reverse this unfortunate trend. Thus was born the CANARA BANK Golden Jubilee Education Fund in 1956. Inspired by its founder's love for education the Fund was designed to help needy students on merit-cum-means basis for pursuing professional courses of studies. Granting long term loans, 25 years ago, at 4 per cent interest (simple) repayable a year after completion of education.

SOMETHING UNIQUE, PIONEERING AND PACE SETTING.

A closely linked service is the Book Bank scheme to lend costly professional books to students.

Thousands of students have benefited from these year after year. Some in India and others abroad, working in different disciplines and occupations : Doctors, Teachers, Self-employed industrialists and many more.

ALL BECAUSE, ONE MAN HAD A VISION.
AND HIS BANK SOUGHT TO FULFIL IT.

Serving to Grow - Growing to Serve

CANARA BANK
1906 - 1981

BEYOND INTERESTS, A CONCERN

The Resurgence of Supply-side Economics

By **S. Neelakantan** *

What is supply-side economics? How far it is relevant to the conditions prevailing in India? These questions have assumed special significance in view of the emphasis that the Reagan administration has placed on supply-side economics. That the supply side experiment has not yielded the desired results in the United States should serve as a warning against its adoption elsewhere. In this article, the author explains the concept and avers that it has very limited relevance to our country.

IN economics, extra-ordinary challenge evokes extra-ordinary response. Thus the direct effect of the vicious choking grip of mercantilist overcontrol was the invisible-hand, free-market theorem of Adam Smith. Keynesian income-expenditure approach was undoubtedly the product of the deepest depression suffered by the capitalist system in the 1930s. And now the stalking spectre of stagflation that haunts the advanced industrial nations has given birth to "supply-side" principles of economics.

The name supply-side economics is new; but the idea is as old as political economy itself. All teachers of macro-economics in India are familiar with the Say's Law of Markets and the critique of it. Supply-side economics is merely rejuvenated Say's Law. To understand the need for such rejuvenation, let us retrace the development of economic thought in the last five decades. During the great depression of the thirtees, there was the ubiquitous and tragic spectacle of mass unemployment and the resultant poverty on the one side and closed factories and wasted potential on the other. Economists trained in the classical tradition of Say's Law could not offer a workable solution. It was Keynes message that led the Western World from that eternity of dark suffering toward the possibility of new life. His message was simple and direct: Manipulate aggregate demand, if necessary through fiscal measures, to achieve full employment. "In place of the classical emphasis on the proposition that supply creates its own demand, Keynes came very close to a new dictum, that demand creates its own supply. It is just as true to say that Keynes propogated the belief that demand would get supplied as it is to say that the classicals believed that supply would get demanded" (MUNDELL, R. A., 1968).

The practical implications of the newly developed theory were that the stimulation of aggregate demand had to occur *via* fiscal policy, and that public expenditure could be effectively utilised to achieve redistribution, stabilisation and growth. Stated differently, Keynesian economics practiced demand management by "fine-tuning" the economy. For two decades after the end of the second world war, Keynesian theory reigned supreme. The monetarist counter-revolution which followed was based on the premise that monetary policy had greater effectiveness in altering the aggregate demand than fiscal policy.

The seventies of this century saw the emergence of the novel phenomenon of 'stagflation', a hybrid of stagnation and inflation, in many Western Economies including the U.S.A. The problem proved intractable in spite of the heroic efforts and valiant attempts with demand management. The off-shoot of the discussion that followed is the revival of interest in aggregate supply with the new name supply-side economics.

The main policy variables that can be employed to alter aggregate demand are fiscal policy and monetary policy; to alter effective aggregate supply are incentives, wage rates and productivity. For demand management, an increase in government expenditure or a reduction in tax rates would seem to have equivalent effects. But for supply management, an increase in government expenditure and a reduction in tax rates would have opposite effects.

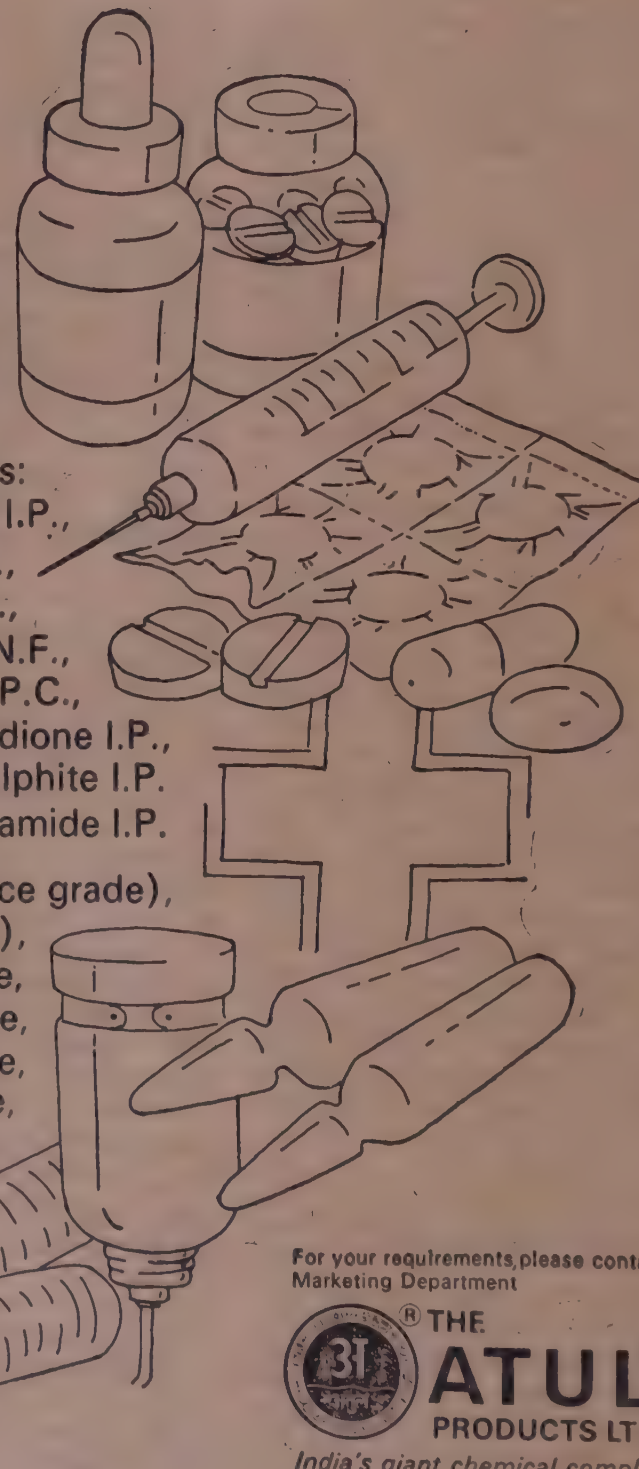
The supply-side economists maintain that three decades of demand management had resulted in (a) too much government with too many unnecessary regulations (b) too much public expenditure with a counter-productive high tax system and (c) too much money. They argue that the monstrous growth of government has affected progress and efficiency; that the multiplicity of regulations has brought the bureaucracy into the private life of citizens, where they have no comparative advantage; that the increase in public expenditure has very often benefitted the least deserving and penalised the most deserving in spite of the best of intentions of the government and its agencies; that the high rate of taxation has sapped all initiative to work and save; and that the increase in money supply has fanned the fire of inflation without increasing productivity. Accordingly, they recommend (a) a significant reduction in the growth of government spending (b) carefully designed tax cuts (c) regulatory relief for every sector of the economy and (d) monetary restraint.

The supply-side view focusses on the effect of tax cuts on incentives, relative prices, aggregate supply and economic growth. Tax cuts would induce a shift from leisure to work, from consumption to saving, from non-market activity to market activity, thus enlarging effective aggregate supply and economic growth.

They posit a special type of relationship between tax-rates and tax-revenue, which has gained popularity as "LAFFER CURVE" after the name of its chief protoganist, Professor Arthur Laffer of the University of California at Los Angeles. In his own words"....there are two effects tax rates have on total revenue. One effect we call the arithmetic effect: if you raise the tax rates, it is unambiguously true that you collect more

---

* Department of Economics, University of Madras, Autonomous P. G. Centre, Tiruchirapalli-620 020.



PHARMACEUTICAL CHEMICALS

You can get
renowned **ATUL®**
quality at a fair price
and delivery schedule.

Why settle for less?

Atul produces a variety of pharmaceutical chemicals which are used by manufacturers of life saving drugs.

The range includes:
Quiniodochlor I.P., Nikethamide I.P.,
Saccharin U.S.P.,
Saccharin Sodium I.P.,
Sulphadiazine I.P., Halazone N.F.,
Sulphathiazole B.P.C.,
Menadione I.P., Acetomenadione I.P.,
Menadione Sodium Bisulphite I.P.
and Tolbutamide I.P.

Dicalcium Phosphate (Dentifrice grade),
Dicalcium Phosphate (I.P. grade),
Methyl Dichloro Acetate,
Tolyl-p-Sulphonyl Ethyl Carbamate,
Para Chlorobenzene Sulphonamide,
Paratoluene Sulphonamide,
Paratoluene Sulphonyl Chloride
and Urethane.

For your requirements, please contact:
Marketing Department

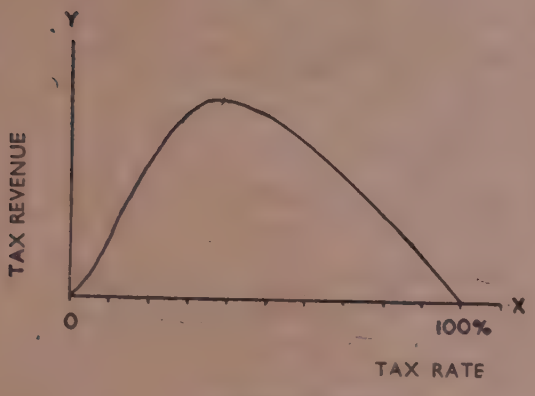
®THE
ATUL®
PRODUCTS LTD.
India's giant chemical complex
P.O. Atul, Dist. Valsad-396 020
Gujarat (India)
Tel: 61 Gram: "TULA" Atul.
Telex: 0173 232 "ATUL IN"

Agents all over India.

Adroit-5129

Indenting Agents: PATEL & SONS, Indian Chamber Building, Esplanade, Madras-600 001 ☐ TT INVESTMENTS & TRADES, PVT. LTD., 5, Luz Church Road, Madras-600 004 ☐ KOTTA RANGA RAO, Pulipativari Street, Vijayawada-520 001 ☐ PATEL & SONS, 37, Mahatma Gandhi Road, Secunderabad-500 003 ☐ INDIRA CHEMICALS, 95, Arcot Sreenivasachar Street, Bangalore-560 053.

revenue per dollar of tax base. But there is an economic effect: if you raise tax rates, you reduce incentives for working, and you shrink the tax base. These two effects always work in the opposite direction, and as often as not, an increase in tax rates will ultimately lead to less revenue, not more" (LAFFER, 1981).



LAFFER CURVE

The Laffer Curve illustrated here is self explanatory. At zero tax rate, tax revenue is also zero. When tax rate increases, tax revenue also increases. At a certain point, it reaches the maximum. After that point, every increase in tax rate results only in progressive reduction in tax revenue. At 100 per cent tax rate, tax revenue again falls to zero. The explanation for this behavioural relationship is as follows: Tax revenue is equal to the tax rate multiplied by the tax base. A change in tax rates affects incentives to work and save and thus affect aggregate supply. A change in aggregate supply affects the tax base. Laffer argues that tax rates and tax base are interrelated and may change in opposite direction. Changes in tax rates and changes in tax revenue are not always positively related. They can become negatively related after a stage.

When tax rates are near zero, there will be a total lack of public goods such as roads, schools, communication network etc., and hence aggregate supply will be very low. With progressive increase in tax rates, these complementary functions will be increasingly supplied. The consequent increase in productivity and aggregate supply will outweigh the disincentives and inefficiencies associated with the rise in tax rates. With rapid increases in aggregate supply, the tax revenue will also rise fast and reach a maximum.

After that stage, increase in tax rates will start affecting relative prices. It will reduce the after-tax rewards, and reduce the incentive to work, save and invest. Rather than working hard and losing the resulting income to the tax authorities, people will start shifting to leisure, conspicuous consumption, working for non-taxable income and even tax evasion. The aggregate supply will become less than what it can be, The net result will be a reduction in tax revenue. Simultaneously diminishing returns will set in in the supply of public goods. After this, with every increase in tax rates, the growth of aggregate supply will become smaller and smaller. Ultimately, at 100 per cent tax rate, no one will be willing to work, and the tax base will shrink to zero. Hence tax revenue will also become zero.

A long line of distinguished economists have stressed the importance of production in economics. The Physiocrats, David Hume, Adam Smith, J. B. Say, J. R. McCulloch and J. S. Mill belong to this tradition. "When production increases, output will increase; this will increase the income of the factors engaged in producing the output; this enhanced income will be expended in purchasing the output. Thus supply will create its own demand. Hence the sure remedy for unemployment, which is itself a symptom of mismatching of factors, is to increase aggregate supply, i. e., production and output. They recognised the relationship between tax rate and tax revenue and recommended only moderate taxes. In Britain, Prime Minister Gladstone and in the U. S., President Coolidge pursued policies of tax reduction with great success. In recent years, President Kennedy effectively reduced taxes, but it was not on the advice of supply-side economists.

Now in Japan, Germany, Puerto-Rico, and United Kingdom the policies recommended by supply-side economists are being pursued. But the most daring experiment of supply side economic policy is "Reagonomics" — the economics of President Reagan of the United States. The most striking ideological impact of supply-side economics is the revival of interest in free-market economics as against the 'welfare – state-mixed economy' concept. In the forties of this century, it looked as though Say's Law has had a (not very) decent burial. With the revival of interest in supply-side economics, it is being resurrected. We can concur with the view, "The supply-side approach is neither novel nor fad. This approach is well rooted in classical macro-economic analysis.

Indeed, the supply-side view constitutes a return to the dominant orthodox strain of macro-public finance analysis which originated with the attacks of the Physiocrats, David Hume, Adam Smith and other economists on mercantilism........ Recently.... it has become obvious that current circumstances are not at all in accordance with the presumptions of the income-expenditure (Keynesian) framework. In particular, high rates of inflation and high levels of unemployment together with relatively low rates of output growth (i.e., stagflation) had led some economists to question the soundness of the 'New Economics'.

Particular policy recommendations of supply-side principles of economics may be relevant to Indian conditions. Of great interest is the recommendations regarding tax-reduction and deregulation. The disincentives associated with the very high indirect tax rates and personal rates need to be studied intensively for follow up action. Many Committee Reports have repeatedly commented about the strangling nature of regulations and controls. It is high time the unnecessary controls and regulations are weeded out. But the overall policy of supply-side economics — i. e., return to pristine pure capitalist framework — is not practical politics in Indian conditions.

REFERENCES

1. LAFFER, Arthur, "The New Economics ... The Pros and Cons" SPAN — Vol. XXII-No. 11, November, 1981, pp. 31-38.

2. MUNDELL, Robert A, *Man and Economics* — Tata McGraw Hill, New Delhi, 1968, Reprint 1976 p. 110.

3. KELCHER, Robert E and ORZECHOWSKI, William P, "Classical Origins of Supply-side Economics — Economic Impact — No. 36, 1981/4. I.C.A., U.S.A., p. 35 and p. 41,

Role of Multinational Enterprises in Third World Employment

RAPIDLY growing investment by multinational enterprises (MNEs) which doubled over a decade is bringing industrialisation and jobs to the Third World. However, an ILO study shows that the investment and the employment it created have been chiefly concentrated in about a dozen of the 100 or so developing nations in the world. Nearly 50 per cent of these MNEs resources, according to latest available figures, came from the United States and the next largest amount from the United Kingdom. The participation of Canada, France, the Federal Republic of Germany, Japan and the Netherlands accounted for some 30 per cent of the total.

In recent years, however, annual investment flows to the Third World from Japanese and West German MNEs have been increasing much faster than those from such investment trail-blazers as the US multinationals. Undertaken to provide an insight into the employment effects of MNEs in developing countries, the 115-page study evaluates research covering main parent enterprises and their offspring in Asia, Africa and Latin America. It follows trends in the past two decades. The study found that Latin America had been the principal recipient of foreign direct investments in the developing world. It is therefore not surprising that it also ended up with some 60 per cent of the MNE employment in developing countries. Asia followed with more than 30 per cent and Africa with less than 10 per cent.

By 1980 direct employment provided by multinationals in developing countries reached about 4 million (0.5 per cent of the total labour force), as against some 40 million in industrialised market economy countries. MNEs in the Third World are concentrated in much the same capital- and research-intensive activities as they are in their home countries, including manufacturing, mining, chemicals, pharmaceuticals and agro-industries.

The lion's share of employment generated by these activities goes to the relatively more advanced and industrialising developing countries with larger potential markets or an export base, important natural resources, a pool of highly trainable manpower, and usually a favourable approach to foreign investment, most of which is found in the manufacturing industries. In Thailand and the Philippines, therefore, where the labour force is still essentilally rural, the share of MNEs in total manufacturing employment was only 2 and 7 per cent respectively. In the more industrialised countries, such as Argentina and the Republic of Korea, it was 10 per cent, and it was twice that in Brazil and Mexico where multinationals find multiple assests.

In Kenya, a country undergoing rapid industrialisarion, MNEs' employment share in manufacturing rose to 35 per cent. Finally, in Singapore, which relies heavily on foreign investment and exports, multinationals accounted for nearly 70 per cent of manufacturing employment.

Over-all, of a sample survey of some 8,60,000 employees in developing countries working for 250 multinationals in 1977, 87 per cent were in manufacturing, 3 per cent in the extractive sector, 1 per cent in agriculture and 9 per cent in other activities, notably the rapidly growing sector of banking and services. Employment in the enterprises covered by this survey has increased two-and-a-half times since 1960, the study says.

The 4 million figure of MNE employment in developing countries tells only one part of the story, the study notes. There is also a hard-to-calculate but definite spin-off effect in terms of indirect employment created through economic links between multinationals and local firms as well as through increased government revenue and incomes.

For instance, MNEs active in the food processing industry may indirectly create significant employment in the host country's agricultural sector; or automotive multinationals may generate spin-off jobs by using domestic inputs in their assembly operations. In the Republic of Korea, for example, the spin-off effect was found to be some 60 per cent of the total direct employment accounted for by MNE activities.

The impact of both direct and indirect MNE employment in developing countries may not necessarily be positive, the study says. Multinationals may in some situations displace more employment in formerly flourishing local enterprises than they may themselves create.

In this connection the study notes research findings showing that in Brazil, between 1970 and 1975, more than 200 local enterprises in the animal food industry disappeared as a result of competition from multinationals and other agro-industry large enterprises. Other adverse effects of MNE activity on the labour market mentioned in available research are, for example, the extinction of traditional occupations or the increase of unstable seasonal-employment.

The study points out, however, that it is difficult, if not impossible, to isolate the effects which can be ascribed to MNEs from those caused by the more general trends of industrialisation and modernisation. Governments of host countries can take measures to counter potentiolly hormful aspects of MNEs activities within their borders. The study suggests a number of intertwined policy considerations. On the one hand they aim at ensuring that foreign investments are not highly protected against international competition over a long period. On the other, they advocate strengthening industrial structures which do not suppress indigenous enterprise but encourage local innovation and induce the MNEs to buy locally.

World Economic Outlook-1982: Assessment By Major Regions

Gradual economic recovery will characterise the world economy in 1982, but certain weaknesses will persist. The governments of the key economies are holding to their anti-inflation, moderate growth policies to avoid another round of high inflation. Consequently economic expansion will be slow in early 1982; however, real growth will improve after mid-year as inflation abates. At present, the world economy faces high inflation, low growth, high unemployment, and large imbalances in international payments.

United States–Weak Recovery in Second Half of 1982

THE U.S. recession that began in 1981 will carry into early 1982, with real output declining through at least the first quarter. A turnaround will begin around mid-year, but a still-restrictive monetary policy will keep the recovery weak relative to past upturns. For the year as a whole, real output will decline in a range of zero to 1 per cent

The recession is largely attributable to high interest rates created by restrictive monetary policy. While the Federal Reserve will have some room to ease policy as the economy declines, its determination to lower the rate of inflation by limiting expansion of the monetary aggregates will keep real interest rates at relatively high levels. This implies a weak recovery at best, a prolonged downturn at worst.

The stimulative effect of the Administration's new fiscal package will not appear until the second half of 1982. The 1981 personal tax cuts will do little more than offset the increase in taxes from inflation and the January 1982 increase in Social Security taxes. Incomes will not receive a significant boost until the second stage of the tax cut in July 1982. The resulting weak income growth, when combined with high interest rates, will lead to relatively weak growth of consumer expenditures.

Corporate tax cuts—especially the accelerated depreciation allowances and the increased investment tax credits—will significantly strengthen business fixed-investment incentives over time. But because of the lags in formulating, financing, and implementing investment decisions, the initial effects will be small. Furthermore, the near-term stimulative effects of the tax changes will be overpowered by the negative effects of high interest rates and declining output. As a result, business fixed investment will decline through at least the first half of 1982. Subsequently, investment growth will rise, buoyed by a stronger economy, improved cash flow, lower interest rates, and greater tax incentives.

Declining sales are creating an inventory imbalance, with stocks rising relative to sales. This will require future cutbacks in production. But barring a major collapse of sales, the inventory imbalance is likely to be relatively mild, with inventory levels restored to a normal relationship to sales within one or two quarters. The inventory correction should be completed by mid-1982. The subsequent rebuilding of inventories will provide a positive source of growth.

During 1981, the international value of the dollar rose 25 per cent, returning to its 1972 level and reversing nearly a decade of decline. The rebound of the dollar has raised the prices of U.S. export goods and reduced the price of imported goods, creating a deterioration in the balance of payments that will last through the first half of 1982. As interest rates ease downward, capital inflows will weaken and demand for the dollar will decline. In turn, this will strengthen the price competitiveness of U.S. goods, setting the stage for greater growth of exports in late 1982 and beyond.

The unwinding of inflation that began in 1981 will continue into 1982, with inflation averaging about 8 per cent for the year. Much of the recent decline in inflation reflected the reversal of shock factors—rising energy costs and mortgage rates—that had driven inflation temporarily above its trend rate. These factors will have less effect in 1982. with energy costs rising only moderately and mortgage rates declining. The effects of monetary restraint are just beginning to appear in the underlying or trend inflation rate but will become increasingly apparent in late 1982 and beyond.

Interest rates will gradually trend downward through at least the first half of 1982 but will remain volatile, and the downtrend will be interrupted by sporadic increases. Volatility in rates is virtually assured by the Federal Reserve's continuing emphasis on controlling growth of bank reserves and the money stock. With this policy, changes in the demands for credit and in the money supply create swings in interest rates. The potential for higher rates arises from a possible clash between monetary and fiscal policies. With the federal tax cuts exceeding spending reductions in 1982, the federal deficit and the government's borrowing requirements will remain high through the first half of 1982, rising even higher after mid-year when an additional reduction in personal tax rates takes effect. As the economy picks up, private credit demands will also rise. If monetary policy remains restrictive, the result would be rising total credit demands colliding with a slowly growing money supply—creating another spike in interest rates.

Canada—Slowed by the U.S. Recession

IN 1982, the Canadian economy will weaken again following 1981's recovery. In real terms, GDP is expected to grow only 1.5 per cent. The inflation rate will remain in double digits at 11.5 per cent due to accelerating labour costs and progressing oil price decontrol.

The Canadian government, determined to reduce its fiscal deficit, has increased taxes somewhat and is holding spending to the rate of real GDP growth. The nation's economic slowdown will be reinforced by its monetary policy, which over the past few years has focused on gradual reduction of the money supply. Interest rates will remain high as the Bank of Canada maintains a positive interest-rate differential—with respect to U.S. interest rates—to support its exchange rate and reduce the movement of capital to the United States.

TABLE - 1

MAJOR ECONOMIES OF NORTH AMERICA

	GDP Level ($ billions)	Real GDP (% change)			Inflation – CPI (% change)		
	1981	1980	1981	1982	1980	1981	1982
Region	3,737.8	0.2	2.2	–0.2	13.8	11.4	9.3
U.S.	3,279.9	–0.2	1.8	–0.9	13.5	10.4	8.2
Canada	282.9	0.1	3.5	1.5	10.1	11.4	11.5
Mexico	175.0	7.5	7.0	6.5	26.3	27.5	24.0

Bank of America estimates for 1981; forecasts for 1982.

Consequently, Canda's inflation and interest-sensitive sectors such as housing, automobiles, and plant and equipment investment will be adversely affected. Exports will decline due to slow growth in the United States. A bright spot for 1982 is the government's decision to—at least temporarily—delay its Canadianization programme beyond the energy sector and to soften its anti-foreign investment posture.

Mexico—Energy Driven Boom Continues

SINCE mid-1978, the Mexican economy has been booming, and this high growth ought to continue through 1982 at a slightly lower rate of 6.5 per cent. Mexico's economic surge is based on the rapid expansion of the oil industry, the large inflow of foreign funds, and the conscious effort of the government to accelerate the growth of employment opportunities. Oil development is subject to two different and opposing philosophies. Conservationist groups attempt to utilize oil resources in a long-term development strategy, while other groups press for rapid growth of oil revenues to quickly reduce unemployment levels. The population of 70 million depends on economic progress for the preservation of a stable social environment.

Mexico hopes to create 600,000 new jobs each year, primarily in agriculture and federal work projects. Its greatest need is for skilled labour for industry and commerce. Wages for these workers have increased markedly in 1981 and will probably continue to do so in 1982.

One consequence of rapid economic expansion has been an increase in the rate of inflation. During 1981, Mexico's consumer prices are expected to increase by 24 per cent and will continue to grow at that level during 1982. The government has repeatedly emphasized its desire to maintain growth and employment rather than to fight inflation. It has been policy to keep money growth high to assure ample liquidity in the economy.

During the last year, industrial production increased at rates faster than the growth of the entire economy and should continue to do so throughout 1982. The weakest link in the economy has been agriculture. More normal rain patterns and greater investment in irrigation equipment will allow Mexico to come closer to feeding its population in the future, but grain importation will still be necessary. As long as the Mexican population continues to grow rapidly, adequate food supplies will be a major problem.

In response to Mexico's energy bonanza, imports and exports expanded by roughly 200 per cent between 1978 and 1981. The oil export sector is influenced by both domestic policy choices and the international petroleum market. If this market performs as expected, Mexican exports will reach $26 billion in 1982, including $21 billion from petroleum exports. Imports should reach $29 billion. Largely due to Mexico's interest payments to other countries, a total current account deficit of $11 billion will have to be financed.

Latin America—Gains in Growth and Inflation

After a period of rapid growth, Latin America will experience average growth rates above 4 per cent in 1982. This is a result of deliberate policy measures of many governments designed to slow down their economies while improving their underlying structures, as well as to the general slowdown of world economic activity. Brazil, whose output exceeds 40 per cent of the total regional GDP, has purposely followed stabilization measures, which will tend to lower output growth in 1982.

As a by-product of the rapid growth of former years, Latin America has experienced chronic high inflation. Although individual countries such as Chile have attained considerable success in curbing inflation, the two leading countries—Brazil and Argentina—will offset these gains significantly.

Several countries of the Southern Cone have followed free market policies that emphasize the growth of the external sector. Considerable success has been achieved both in the value of exports and in the diversification of the product mix. A trend toward exports of manufacturing is most clear in

TABLE - 2

MAJOR ECONOMIES OF LATIN AMERICA

	GDP Level ($ billions)	Real GDP (% change)			Inflation—CPI (% change)		
	1981	1980	1981	1982	1980	1981	1982
Region	592.7	5.3	3.9	4.3	64.9	67.7	58.6
Brazil	250.0	8.6	4.3	4.5	82.8	98.0	85.0
Argentina	94.8	1.1	2.0	3.0	118.0	105.0	85.0
Venezuela	62.4	0.8	3.1	4.0	25.7	22.0	20.0
Chile	26.4	6.5	6.0	5.5	35.1	21.0	18.0

Bank of America estimates for 1981; forecasts for 1982.

Brazil, which now derives more than 50 per cent of its export earnings from industrial and manufactured goods. It remains, however, the second largest agricultural exporter, following the United States. Argentina and Chile continue to make export gains in Agriculture and mining.

In 1982, Latin American exports will reach almost $92 billion, giving the region a small trade surplus. The surplus, however, will be offset by a net outflow in the services account, with much of it due to payments on the large and growing external debt of the region. Its debt, which will reach $193 billion by year-end 1982, will lead to a current account deficit of $25 billion.

Foreign investors have made sizable commitments to Latin America. The region has also increased its participation in international capital markets. Furthermore, its international reserves by year-end 1982 will stand about $50 billion, with gold valued at market prices. Consequently, the region as a whole is in a fairly strong position to attract needed capital.

Politically, Latin America remains a strong ally to the Western world, and this should continue in 1982. Changes in government leadership will not affect the fundamentally Western orientation. Central America will continue to be a military and ideological battleground in 1982. The Cuban influence is still considerable in Nicaragua and El Salvador, but it has declined in Jamaica.

Asia—Stronger in 1982

Following two years of sluggish growth, Asia is expected to experience a moderate economic upturn in 1982, reflecting the gradual worldwide economic recovery, another year of modest oil price increases, and falling international interest rates. Real growth in Asia will exceed 5 per cent in 1982 due to stronger export demand, a pickup in private investment, and a general easing of restrictive monetary and fiscal policies in the wake of declining inflation.

The Japanese economy will continue on its recovery path in 1982, with real growth reaching 5 per cent. While monetary policy may be eased somewhat in early 1982, the ability of fiscal policy to stimulate the economy is severely limited. A major source of growth will be a recovery in private capital investment. A significant improvement in Japan's current account will result from a combination of sluggish growth in imports and strong growth in exports—although not as robust as in recent years. Its continuing bilateral surpluses with the United States and the European Economic Community will increase trade tensions and probably force Japan to further reduce its non-tariff barriers and adopt some temporary measures to increase imports.

In coming years, the centre of fastest growth will shift from East Asia to Southeast Asia, which offers good prospects for labour-intensive manufacturing, such as electronics and light machinery, due to its abundant low-cost labour force. The relatively rich energy resources of these countries are also attracting energy-intensive industries like petrochemicals and mineral smelting. In addition, greater processing of indigenous commodities will take place in Southeast Asia. Overall, this region will be less vulnerable to changes in world economic conditions, since the underlying growth trend of demand for its abundant agricultural, mineral, and energy resources will be strong over the long term.

TABLE-3
MAJOR ECONOMIES OF ASIA

	GDP Level ($ billions)	Real GDP (% change)			Inflation—CPI (percent change)		
	1981	1980	1981	1982	1980	1981	1982
Region	2,214.8	4.8	4.2	5.1	10.1	7.4	7.3
Japan	1,169.0	4.2	4.0	5.0	8.0	5.0	5.5
China	284.0	5.0	3.0	4.5	7.5	5.0	5.0
India	171.2	6.5	3.8	3.9	11.5	10.0	9.0
Australia	163.5	2.8	3.6	4.3	10.2	10.5	11.5
So. Korea	69.2	3.4	5.5	7.0	28.7	24.0	18.0
Philippines	38.2	5.4	5.0	5.5	17.8	9.0	9.0

Bank of America estimates for 1981: forecasts for 1982.

The growth rate of East Asian countries—namely Korea, Hong Kong, and Taiwan—will remain high by world standards but will decline from historical trends because of the need for industrial restructuring in response to increased wages and prices for energy and raw materials. Also, more resources are being allocated to less directly productive social programmes. Future growth will be primarily in capital- and technology-intensive industries, which are energy efficient.

Asia's inflation rate will continue to decline in response to the stabilization policies of the past, lower food prices, and higher productivity gains, as well as to the nearly completed adjustment of domestic energy prices to the 1979-1980 oil price hikes. Inflation will increase 7.3 per cent in 1982, roughly equal to the 1981 rate. Japan has reduced its inflation rate to 5 per cent in 1981, but as the economy strengthens there will be a mild increase in inflationary pressures. Nevertheless, increased productivity, stable unit labour costs, and a gradually strengthening yen will help contain the inflation rate to 5.5 per cent for 1982. As the interest rate differential between the United States and Japan continues to narrow, the solid economic fundamentals of the Japanese economy will become increasingly important in determining the trend of the yen.

Despite continued large current account deficits for most Asian countries—Japan being the most notable exception—the region will maintain its comfortable level of international reserves, since the deficit countries are not likely to encounter any difficulty in obtaining balance of payments financing.

Western Europe—Slow Recovery

In the second half of 1982, Western Europe is expected to recover slowly from its 1980-1981 recession. Recovery has been delayed due to the restrictive monetary policies undertaken in 1981 to prevent further deterioration of European exchange rates.

In 1982, economic growth for Western Europe is expected to be about 2 per cent, following zero growth in 1981. The impetus for growth will come from increased exports, particularly to the middle Eastern OPEC countries, and from an increase in domestic demand. In Germany, the increased competitiveness of exports will constitute the main driving force, while in France the government's reflationary policies will contribute to the economy's expansion in early 1982. In the United Kingdom, the rebuilding of inventories and a slight pickup in investment should sustain an upturn after mid-year. Despite slightly improved economic growth in 1982, the overall unemployment rate in Europe will grow, bringing the total number of jobless to 10 million. The increase in the supply of labour is expected to continue to exceed the growth in new employment opportunities.

Inflation in 1982 will slow in most European countries, bringing the overall rate to 10.6 per cent. Germany and the United Kingdom will hold to their objectives of lower inflation through monetary restraint by serious efforts to limit the growth in public expenditures and reduced budget deficits. In contrast, France will follow a stimulative policy and try to control inflation with price controls. Several other countries—such as Italy and Belgium—will have severe problems in containing their deficits and curbing inflation. Germany, the Netherlands, and Switzerland will eontinue to exhibit the lowest inflation rates in Europe.

In foreign trade, increased competitiveness of European countries will boost their earnings from exports by 13 per cent, against 12 per cent growth in their imports. To face the growing challenge from Japan and the newly industrialized nations, European countries are moving to restructure their industries toward internationally competitive activities and encouraging research and knowledge-intensive industries. Europe as a whole is pursuing policies of energy conservation and increased use of coal and nuclear power to reduce the oil bill as well as to decrease dependence on foreign sources of energy. Oil imports have declined in volume as a consequence.

The combined current account deficit is expected to improve slightly, to $26 billion in 1982. Some countries, however, will record a solid improvement in their current accounts due to their succesful adjustments to the oil price shocks of 1979-1980. Germany will cut its deficit from $9 billion in 1981 to $4 billion in 1982, while Switzerland and the Netherlands are expected to be in surplus.

TABLE-4

MAJOR ECONOMIES OF WESTERN EUROPE

	GDP Level ($ billions)	Real GDP (% change)			Inflation—CPI (percent change)		
	1981	1980	1981	1982	1980	1981	1982
Region	3,576.9	1.5	0.0	2.0	12.9	12.1	10.6
W. Germany	836.9	1.8	-1.2	1.2	5.5	6.3	5.4
France	756.9	2.0	0.5	2.9	13.6	14.1	14.8
United Kingdom	488.2	-2.8	-1.7	2.0	18.0	11.6	11.1
Italy	366.6	3.6	0.0	2.6	21.3	21.0	16.0
Switzerland	95.7	4.1	0.8	2.2	4.0	6.5	6.9

Bank of America estimates for 1981; forecasts for 1982.

There is a growing anxiety about social and military problems in Europe. The future of the European Economic Community (EEC) is a current topic of discussion. France is expected to remain committed to the community and to the North Atlantic Alliance. However, with the stated intention of the opposition Labour Party in Britain to leave the EEC organization, and the similar campaign promise made by the newly elected socialist government in Greece, the future strength of the EEC remains uncertain. In the Scandinavian countries, particularly Sweden and Denmark, a discernible shift to more market-oriented policies is taking place in response to balance of payments problems, high inflation, and growing public indebtedness.

Eastern Europe—Generally Low Growth

The centrally planned economies of Eastern Europe currently face high debt levels, a need to adjust their economies to higher energy costs, declining agricultural productivity, slowing trade with the West and a growing potential for labour disputes in countries other than Poland.

The Eastern bloc in general has entered into a period of stagnation that will persist at least over the next two to three years. During this period, emphasis will be placed on increasing productivity in the agricultural sector, since potential shortfalls in food supplies are a major factor in political instability. Agricultural exports to the West will be reduced and will not be offset by higher exports of manufactured goods.

Growth rates will be low in 1982 and 1983. The average rate for Eastern Europe is expected to be around 2.5 per cent, but large differences among countries exist. Yugoslavia is expected to grow by 3.4 per cent, while Poland will continue to stagnate. Slower growth is the result of bureaucratic mismanagement, inefficiency in planning—particularly in manufacturing—and a general lack of incentives for producers. There will be no quick and easy cure for these problems.

Many countries in the Eastern block have resisted pricing reforms and sought to keep gas and agricultural prices at very low levels. Rising consumption in the face of decreasing agricultural output has been made possible by heavy reliance on imports for consumption. However, this has meant fewer imports for productive investments.

While inflationary trends are difficult to monitor in state-controlled economies, significant price distortions have begun to appear in most Eastern bloc countries, especially in the energy and agricultural sectors.

Less favorable economic trade relations with the West have pushed Czechoslovakia and Bulgaria closer to the Soviet Union. Hungary and the German Democratic Republic, on the other hand, have diversified their trade relations with the West and have, to some degree, implemented reforms in their domestic price structure. The prospects for these two countries, along with Yugoslavia appear more favourable in 1982, barring further antagonisms in East-West relations.

TABLE-5

MAJOR ECONOMIES OF EASTERN EUROPE

	GDP Level	Real GDP			Inflation—CPI		
	($ billions)	(% change)			(percent change)		
	1981	1980	1981	1982	1980	1981	1982
Region	1,262.0	1.5	1.5	2.5	5.6	8.4	9.5
USSR	718.0	1.8	2.7	2.9	2.0	2.0	2.0
Poland	139.5	-4.0	-9.0	-1·5	8.7	20.0	25.0
Yugoslavia	123.7	3.0	3.2	3.4	29.8	40.0	35.0
E.Germany	86.6	4.2	3.2	3.0	5.0	5.0	5.0

Bank of America estimates for 1981; forecasts for 1982.

In general, the economies of Eastern bloc countries are marked by mismanagement and unfavorable external developments—particularly the poor reception of manufactured exports in Western markets. Except for Hungary, the Eastern European countries also have suffered reduced agricultural output, which raises the potential for more generalized labour problems.

Middle East—Much Depends on Oil Demand

Most oil-producing Middle Eastern countries will have declining oil production in the first half of 1982. This will be due to the conservation efforts of the industrialized countries and their slow recovery from the 1979-1980 price shock, as well as to increased production by non-OPEC oil producers. However, by the third quarter of 1982, the recovery in the United States and Europe will help stabilize oil production and may even increase the demand for oil slightly. Oil prices will continue to be soft in 1982. Coupled with sagging production levels, this will lead to a considerable decrease in the growth potential for the oil-producing economies. They should grow 5.7 per cent in 1982, if political turmoil is not increased.

Saudi Arabia will maintain its leadership position in oil production, while Iraq, in spite of its war effort, will push through its ambitious development programme. Both countries will be among the fastest growing economies in the region. Iran will continue to be plagued by internal strife, political and administrative chaos, and sagging industrial production, resulting in virtually no growth in 1982.

The inflation rate in some of the oil-producing countries will subside to below 10 per cent in 1982. The reduced inflationary pressures will come from an amelioration of supply bottlenecks and a slow-down in the frantic development pace of the late 1970s, as well as from extension of government subsidies for basic commodities and price controls in some countries.

In foreign trade, the Middle Eastern countries will supply a declining share of world demand for oil. Saudi Arabia will adopt a lower production level of 8.5 million barrels a day—down from the 1981 average of 9.5 million barrels—allowing other OPEC members to have a larger share of the export market.

Imports to the region are estimated to grow by 23 per cent in 1982. The composition of merchandise imports is expected to alter considerably due to the changing structure and developmental objectives of the Middle Eastern economies. While most countries emphasized infrastructural development in the 1970s, there will be a distinct move toward a more rapid expansion in the supply of services and consumer goods in the 1980s. The import of foodstuffs is expected to grow at a higher rate than machinery and basic manufacturing products, reversing the pattern of the last decade. The United States—with most of its exports to this region now consisting of machinery and manufactured products—will find a new opportunity to expand its food exports.

The current account surplus will drop to $52 billion in 1982 due to continuing soft demand for oil as well as to low production levels in Iran and Iraq. Although Iran and Iraq will increase their production and exports of oil from the very low levels of 1981, the massive imports required to rebuild their war-damaged economies will result in current account deficits for both countries.

Among the non-OPEC nations of the Middle East, Syria and Jordan will expand by 6 to 8 per cent. Turkey and Israel will have moderate rates of real growth of 2 to 3.5 per cent in 1982. The growth of the Turkish and Israeli economies will be hampered by high inflation, large current account deficits, and high levels of foreign debt. However, the export promotion drive in both countries will be boosted by reduced inflation rates. Pakistan and Jordan will benefit from substantial aid inflow, while Syria will begin to export oil from recently discovered deposits.

TABLE-6

MAJOR ECONOMIES OF THE MIDDLE EAST

	GDP Level	Real GDP			Inflation-CPI		
	($ billions)	(percent change)			(percent change)		
	1981	1980	1981	1982	1980	1981	1982
Region	401.0	0.1	0.6	5.7	24.8	22.8	18.3
Saudi Arabia	155.0	12.2	8.7	7.3	3.7	8.0	10.0
Iran	80.0	–11.3	–8.7	2.3	50.0	40.0	25.0
Iraq	35.0	–11.0	-25.0	15.0	15.0	15.0	10.0
Israel	18.0	0.5	2.0	3.5	131.0	150.0	120.0

Bank of America estimates for 1981; forecasts for 1982.

The political situation in the Middle East will remain unstable. The Iran-Iraq war may soon wind down, since these countries find themselves deadlocked, with considerable suffering in both human and economic terms. However, the occupation of Afghanistan, the turmoil in Iran, and the uncertainty over the relationships of Israel with its neighbors, along with the rise of religious fundamentalism in the region, will continue to fuel political tensions in the Middle East.

Africa—Mixed Performance in 1982

The performance of the African economies will continue to be mixed in 1982. The oil-exporting countries are expected to achieve positive growth rates but will with the notable exception of Libya, also have current account deficits. The non-oil-exporting countries will continue to be afflicted by very low rates of economic growth, high rates of inflation, and increasing current account deficits. Economic difficulties will abound in these countries.

Output growth is expected to exceed 5 per cent in 1982. The economies of North Africa, Nigeria, Ivory Coast, Cameroon and Zimbabwe account for more than 60 per cent of the continent's GDP. Fueled by their rich natural resources, these nations are projected to achieve growth rates ranging from 5 to 9 per cent. However, growth in the other countries will remain generally sluggish, averaging about 3 per cent, barely keeping pace with the rate of population increase.

As in previous years, there will be great variation in the experiences of individual countries throughout the continent. The nagative effects of droughts and wars in the Sahel area (Chad, Mali, Mauritania, Niger, and Upper Volta) and the East African region will lead to further output declines in 1982.

The rate of inflation is expected to drop somewhat from the 1981 level of 17 per cent. Only adherence to IMF stabilization measures by the respective countrses will hold down increases in inflation.

The rates of growth in both exports and imports are projected to fall below 1981 rates. Higher prices for minerals—such as copper, lead, and iron ore—are expected to increase the foreign exchange earnings of some economies. But the continued fall of prices for some key agricultural exports as well as the softness in the oil market will offset the revenue increase.

The rise in the aggregate trade deficits of African countries is likely to be accompanied by a continued widening of the deficit in the services account. The combind current account deficit is now estimated to reach $2 billion in 1982. Further, the region's yearly debt service requirements are expected to exceed $2 billion.

TABLE-7

MAJOR ECONOMIES OF AFRICA

	GDP Level ($ billions)	**Real GDP** (% change)			**Inflation-CPI** (% change)		
	1981	1980	1981	1982	1980	1981	1982
Region	374.0	5.9	5.7	5.6	17.9	17.2	15.8
Nigeria	70.4	8.0	8.5	9.0	18.0	15.0	13.5
South Africa	60.3	8.0	4.7	3.7	13.7	15.3	11.8
Algeria	50.8	6.5	10.0	9.0	13.6	14.1	13.1
Egypt	30.5	8.0	8.0	7.0	16.5	21.0	20.0
Sub-Sahara Africa*	98.1	0.7	0.3	0.9	21.6	19.0	17.4

* Excludes Nigeria and South Africa.

Bank of America estimates for 1981; forecasts for 1982.

Politically, the ongoing conflicts in the Horn of Africa, Chad, and southern Africa will continue to destabilize the continent. The presence of foreign troops will heighten the level of conflict in Africa. Furthermore, Libya's adventurist policy is expected to further weaken the security of the continent—adding a threat of more refugees on a continent that already accounts for five million displaced persons. In contrast, the North African countries—as well as Nigeria, Gabon, Ivory Coast, Kenya, and Malawi—will be politically stable and more able to fulfill their potential over time.—*Prepared by the Economics Policy Research Department of Bank of America.*

ROLE OF PUBLIC DISTRIBUTION SYSTEM IN PROVIDING FOOD FOR THE PEOPLE

India's food policy has been a product of the management of scarcity conditions. Distribution system is, therefore, critical in the operations of this policy and the food economy in general. Private and public sectors have been playing a contributory role in the food distribution system in India. There are nearly two lakh wholesalers and 3.3 million retailers in the country of which about 65 per cent handle foodgrains. Distribution of foodgrains by Government is regulated through the channel of fair price shops which number more than 2 lakh 92 thousand at present. While fixed quantity of grains is provided through fair price shops, the consumer is free to supplement his supplies from other sources.

Market structure of foodgrains in India is fairly complex. The market transactions are operated through primary markets situated mostly in rural areas, generally transacting business once or twice a week. Besides, there are wholesale assembly markets and terminal markets receiving produce from distant places and distributing it to the consuming centres.

The public distribution system has come to assume a dominant monitoring impact on the operations of foodgrains economy in general. The system functions through a wide net-work of ration/fair price shops and aims primarily at protecting the interest of the vulnerable sections of the population against high prices. In order to feed the public distribution system and maintain adequate buffer and operational stocks for this purpose, the Government had established the Food Corporation of India in 1964, which is concerned with the purchase, storage, movement, transportation, distribution and sale of foodgrains and other foodstuffs on behalf of the Government. The FCI is the world's largest handler of foodgrains at present.

Building up and maintaining buffer stocks of foodgrains consisting of wheat, rice and coarse grains has been an important element of India's Food Policy. The buffer stocks are meant 1.4.1981, is 3.66 million tonnes and 4.86 million tonnes respectively. The storage capacity available with FCI, CWC and SWCs will be further augmented during the Sixth Plan, as indicated below :

Agency	Physical target (in Million tonnes)	Plan outlay (Rs. in crores)
FCI	3.56	190.00
CWC	1.62	58.00
SWCs	2.50	72.00

Half of the total capacity to be constructed by CWC and SWCs will be available for foodgrains storage. The nucleus for the post-harvest programmes has been the Grain Storage Research and Training Centre, which was established at Hapur in 1958. The centre was developed into the present Indian Grain Storage Institute during the period 1968-1973. The Institute provides training for Government personnel deployed in procurement and buffer stock maintenance and introduces new techniques of pest control in Government godowns.

2 5 JAN 1982
C.F.T.R.I. MYSORE

SOUTHERN
ECONOMIST

January 15, 1982

CONTENTS

EDITORIAL 1
Let Toil Triumph!
CURRENT TOPICS 2
States' Finances; Planning in Karnataka; Progress of Maruti; India and IDA; Multi-Fibre Agreement
GLASS HOUSE GOSSIP 7
SPECIAL ARTICLES 9
Transfer of Technology from Developed to Developing Nations
By K. Munirathna Naidu and G. U. K. Rao
Is Import of Technology from Developed Countries Absolutely Necessary?
By C. P. Sunitha
Energy Crisis in India: Case for Biogas Form of Energy
By D. D. Guru
NABARD, The Apex Organisation to Finance Rural Development
By J. D. Singh
Chinese Economic Development: A Close Look
By Ramji Sahay
BOOK REVIEWS
A Micro Study on Marketable Surplus
INDIAN STANDARDS CONVENTION 27
BANKING WORLD 33
COMPANY NOTES 34
Kothari (Madras) Ltd., Larsen & Toubro; Kar Valves; Reliance Textiles; Voltas Limited; Indian Oxygen; Somany Pilkington's; Premier Mills; Gujarat Steel Tubes; SPIC; Golden Tobacco; Punjab Tractors; Indian Container Lines; Ashok Hotels.
PERSONALITIES: 36

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Let Toil Triumph!

SHRAMA Eva Jayate. This is the new slogan which Mrs. Indira Gandhi handed down to the nation on the occasion of the completion of two years in office in her post-Janata incarnation. As slogans go, this is a good one. It is a timely one too, considering that there has been a decline in the productivity of our industries and that our work ethic is not as strong as it should be. The slogan, to be sure, does not replace the national motto: Satyam Eva Jayate. It is clear that Mrs. Gandhi wants the new slogan to subserve the old one. Strictly speaking, the two slogans belong to different universes of discourse. Be that as it may, the Prime Minister did well to shift the emphasis back to hard work. The new slogan may or may not catch on. Even if it does not, it will not be held against her. One Gandhi, the Mahatma, preached the gospel of truthfulness; a Gandhi of another generation preaches the gospel of hard work. Both have their relevance. Each one reflects the mental state of the milieu in which it is broadcast. Let us not assume, however, that truth is less relevant today than it was say 30 years ago. During the emergency, Mr. Sanjay Gandhi had given a sterner and, may be, a bit more abrasive, slogan: "work more; talk less", as if to admonish us, Indians, for being a people given to idle prattle. Mrs. Gandhi's slogan, with it sanskrit intonation sounds less abrupt and less peremptory.

On a more mundane level, Mrs. Gandhi's revised 20-point programme seems to have greater relevance to the problems on hand. As we wrote, years ago, when the original 20-point programme was announced by way of a blow-softener, in the wake of the harsh measures that Mrs. Gandhi had adopted, the significance of a programme did not lie in the "points" it contained. Indeed, one can trundle in a five-point programme or a fifty-point programme. But the litmus test of any programme lies in how it deals with the grave problems facing the nation. In this sense, would it not have been better if Mrs. Gandhi had instituted a stock-taking of the old 20-point programme before launching the new, improved package? But that is a small point. We wholeheartedly endorse every item in the revised programme. Each item is intended to bring about some improvement in some area of economic activity. Who will quarrel over goals like expediting land reforms, giving better deal to labour, helping the harijans, providing drinking water facility to "problem" villages, giving house sites to the poor, intensifying the family planning programme, showing greater concern for environment and so on? The goals, one may add, are unexceptionable, but one may ask, in all humility, whether Mrs. Gandhi has at her disposal the instruments that are neededed to implement the programme. Ever since the planning process began, some 30 years ago, New Delhi has been trying, willy-nilly, to advance in the directions indicated by Mrs. Gandhi. The constraints of the system virtually prevented the fulfilment of these goals. That being so, how can one be sanguine that Mrs. Gandhi will succeed now?

CURRENT TOPICS

States' Finances in Total Disarry

THE State Governments, which will be presenting their 1982-83 budgets in the coming months, face an unenviable task in making both ends meet. For one thing, their finances are not in good shape. In 1981-82, only two states, namely Madhya Pradesh and Maharashtra, had produced budgets with a significant surplus. And two other states, Meghalaya and Jammu and Kashmir had produced nominal surpluses. The rest had left deficits of varying sizes in their budgets. The largest deficits pertained to the budgets of Uttar Pradesh (Rs. 70 crores), Andhra Pradesh (Rs. 63 crores), Punjab (Rs. 39 crores) and Gujarat (Rs. 30 crores). Surprisingly, the states which have left large uncovered deficits in their budgets also happen to be those which have not made any sizable tax effort.

The deterioration in the budgetary position of the states can be seen from the widening of their deficit from Rs. 477 crores (budget estimate) to Rs. 545 crores (revised estimates) in 1980-81. This has further widened in 1981-82. The deficits of the states, which added up to Rs. 289 crores at the time of presenting the 1981-82 budgets, are reported to have risen many times over. Mind-boggling figures are mentioned. According to one source, a deficit of Rs. 887 crores would spill over into the next budget year (1982 83) even after conceding that the State Governments will fulfill their commitment to raise additional resources of the order of Rs. 598 crores in the current year which has only two more months to go. The latest estimate of deficits—we quote the UNI report appearing in *Times of India* dated January 2—seems to make nonsense of the budgetary exercise. We give below some of these figures for the readers' edification.

(Rs. Crores)

State	1981-82 Est. Gap (BE)	Latest Gap
Punjab	39	127
Madhya Pradesh	+46	40
Rajasthan	30	330
West Bengal	—	300
Uttar Pradesh	70	125
Gujarat	30	64
Maharashtra	+40	112
Karnataka	20	78
Kerala	+ 2	85

The promise given by some of these states to the Planning Commission to either reduce or wipe away these deficits through additional resource mobilisation has to be taken with a pinch of salt, in view of the proximity of the end of the financial year. Almost all the states are likely to start the next financial year with minus balances of varying magnitude. This will partly determine the size of their 1982-83 deficits.

The difficult ways and means position of the states is also reflected in the state of their overdraft position *vis a vis* the Reserve Bank. From Rs. 278 crores (figures rounded) as on March 31 1981, the states' overdraft with RBI increased to Rs. 641 crores on June 26, 1981. Although the position was regularised by June-end by means of assistance from the Centre, the overdraft not only re-appeared but snow-balled to Rs. 767 crores by the end of October 1981. The reasons for the worsening of the states' finances are not far to seek. On the revene side, they include: (a) inefficient collection of taxes; (b) the concessions that the states are pressurised to give to certain lobbies (farmers' lobby, industry lobby, cinema lobby and so on) (c) the State Governments' reluctance to adopt new measures of taxation and (d) the failure of state-owned undertakings like the electricity boards the road transport corporations to throw up surpluses. On the expenditure side, the major cause of the deterioration is the need to pay fresh rounds of dearness allowance which is inflation-indexed. In quite a few states, the Governments have also indulged in squandermania with a view to gaining short-term political advantages. The need to tackle fiscal indiscipline was never more urgent than it is today.

Planning In Karnataka: Resources Riddle

THE latest round of discussions that the state planners had with the Planning Commission has resulted in an upward revision of Karnataka's Annual Plan (1982-83) outlay to Rs. Rs. 475 crores, from the figure of Rs. 419 crores, suggested earlier by the Commission. Compared to the 1981-82 outlay of Rs. 419 crores, this represents an increase of 13 per cent. Together with the outlay of Rs. 385 crores for 1980-81, the state will have spent Rs. 1,379 crores, out of a total Sixth Plan outlay of Rs. 2,265 crores, during the three years. In financial terms, at any rate, the state planners have kept up the momentum. And, in the remaining two years, namely, 1983-85, the state will not have to step up the plan outlay to reach the plan target of Rs. 2,265 crores since only Rs. 886 crores are left to reach this figure.

In physical terms, the picture is less rosy. In view of the sharp rise in prices during the past three years, project costs have gone up and even with the 13 per cent increase proposed for 1982-83, there will be short falls in achieving physical targets. It will be instructive to know, from the state planners, the extent of these shortfalls. From the Chief Minister, Mr. Gundu Rao's account, one can expect progress, even in physical terms. The target for minor Irrigation has been stepped up from 11.30 lakh hectares to 11.90 lakh hectares, food production is expected to go up from 68.46 lakh tonnes to 85 lakh tonnes, sugarcane production from about 98 lakh tonnes to 135 lakh tonnes and so on and on. There is also the promise that Kalinadi Stage I will be completed without further slippage and that more irrigation projects—notably Upper Krishna —will be taken up soon. The plan schemes also include the expansion of some state sector industrial undertakings like VISL, Vidyut Karkhane, Electronic Development Corporation and so on. Further, a Rs. 45-crore joint sector polyster staple fibre project is scheduled to come up, with KSIIDC playing the role of the catalyst.

Whatever one may say about the constitutional propriety of the Prime Minister personally scrutinising the progress of the implementation of the state's plan (she in fact denied that she came to the state capital for this purpose) her discussions with the state ministers and officials has helped to tone up the administration a bit. It is not without significance that she has given a good chit to the Chief Minister inspite of the fact that there have been serious slippages in the execution of the power projects, causing a veritable power famine in the state. Mrs. Gandhi has not also taken serious note of the fact that the Chief Minister has seldom resisted the temptation to sanction schemes which had a potential for yielding political dividends.

The state's finances are not in good shape and, as the review conducted by Mrs. Gandhi showed, the gap in the state's share (in the resource-mobilisation for the Sixth Plan) remains at Rs. 406 crores. As the Finance Minister Mr. Veerappa Moily observed, the state has cleared the RBI overdraft (so far, good) but his assertion that the state Government's budget deficit of Rs. 83 crores would be fully covered may not stand the test of scrutiny. The chances are that when the state budget is presented in the last week of February, he will not have quite succeeded in taking Karnataka out of the red. While business interests — and almost every one else—will welcome his promise that there will be no new taxation, one eagerly looks forward to see how Mr. Moily, whose abilities were never in doubt, can make omelette without breaking eggs.

Foreign Collaboration For Maruti

THE auto wheel has turned a full circle. In the seventies, the policy for the manufacture of passenger cars had two major ingredients: (1) It should have a low priority since the emphasis, in a developing country, should be on improving public transport and (2) if there is to be expansion of car manufacturing capacity, it should be by a private party which is capable of doing it on its own, without seeking any foreign exchange or foreign collaboration. This policy, it may be recalled, constituted a reversal of the earlier stand that an economy car should be produced in the public sector. The nationalisation of Maruti—it is now Maruti Udyog Limited—constituted another policy U-turn in favour of public sector again, of course, with a difference. And the difference lies in the fact that Maruti is free to invite foreign participation to the extent of 40 per cent—the so-called FERA limit. If this has the appearance of inconsistency, it also has the merit of being pragmatic. Imagine the struggle that poor Sanjay had to put up in order to get his prototype accepted by hard-nosed bureacrats—the use of a smuggled engine, making do with cannibalised parts and so on—who were willing to oblige and afraid to give the green signal straightaway.

Now that Maruti Udyog is allowed foreign collaboration to the extent of 40 per cent, it is saved troubles of that kind. By the way, when Maruti Udyog's capital gets diluted by 40 per cent, it will automatically become a joint sector concern — certainly not a public sector unit. So what? With the automobile industry facing a recession in the West and many large units hibernating in enforced idleness, there will be no dearth of collaboration offers. All the big names will be in the race—Leyland of U. K., FIAT of Italy, Piguet and Renault of France, Mercedes-Benz, and Volkswagen of West Germany, Nissan of Japan. The list of possible collaborators will be a long one. Even so, the capital cost and the cost per unit of output will vary, depending on the production capacity, fuel efficiency, raw material mix and the size of the car to be manufactured at Maruti.

Even at a production level of one lakh cars per annum, the cost per car, on the road, is likely to be in the vicinity of Rs. one lakh when one considers that even the less efficient models now on the road—Premier and Ambassador, to be precise—cost around Rs. 70,000. If the excise duty is drastically slashed, perhaps these manufacturers can market their models at Rs. 50,000. Since the cost of the Maruti car will be computed at the prices prevailing in say, 1982-83, it will be priced around Rs. 70,000 to Rs. one lakh even under favourable conditions.

This is fair enough but the Government should stop pretending that it is going to produce a car for the common man. The common man is a myth—at best a peg to hang one's coat on. To be sure, there will be demand for these one lakh cars and this demand emanates not from the factory worker who has to set apart his entire earnings for well over 10 years, living on thin air, to buy a car, but from the new rich who will have salted away a few lakhs or a few millions, taking advantage of the scarcities and the continuous rise in prices. Fair enough, one is tempted to add, again. But then, should we not give some thought to the existing manufacturers who are likely to driven to the wall, if Maruti Udyog succeeds in marketing its product? Can the existing models, based on designs which are at least two decades old, stand the competetion from a fuel efficient, streamlined design of the eighties? If they cannot, should not the Industry Ministry give advance warning to them so that they can modernise their plants in order to produce new models? Considering that it costs quite a fortune to produce a new model—the Ambassador people, one learns, are working on a recently discarded model of Vauxhall (U.K.)—should not these companies bestow some thought on raising the required amounts in the market?

For good or ill, the coming into the picture of Maruti Udyog has brought an automobite revolution nearer the door steps of India, may be a generation too late. The auto enthusiasts will say: never mind the generation's delay; let's have a nice little bouncy car next year. But there will be quite a few environmentalists who would love to entirely bypass the automobile revolution (or be hypassed by it, as is more likely) and wait for a battery-driven vehicle or a vehicle run on sheer soul power (the latter is close to our culture and tradition) no matter how long the wait will be.

Will India Get Fair Deal From Clausen?

NEXT week's visit to India of Mr. A. W. Clansen, new President of the World Bank, will give our Government an opportunity to make one more attempt to prevent a reduction in the present level of aid sanctions from the Bank and its soft loan window, IDA. But to what extent India's pleadings will carry conviction, one cannot be sure. Mr. Clausen, a leading international banker with a keen awareness of the problems facing the LDCs, does not share the same enthusiasm for removing the Third World's poverty that his predecessor, Mr. McNamara showed. Furthermore, it is not Mr. Clausen who holds the purse-strings. The major contributor to IDA's funds is the United States and, if the views of the Reagan Administration and the U.S. Congress are any indication, it is more than likely that the sixth IDA replenishment will suffer a major cut. The size of the cut that is being proposed by the U S. Administration is 44 per cent and since contributions by other "donors" are made on a matching basis, the overall cut in the Sixth replenishment is likely to be of the same order.

India's share in IDA's assistance used to be 40 per cent of its total aid every year, in the past, but it may be doubted if this level of assistance can be maintained during the life of the Sixth Replenishment, notwithstanding what a Finance Ministry's spokeman said at a press briefing last month. IDA authorisation in 1980-81 amounted to around Rs. 1,000 crores—one third of the country's total aid authorisation — but if IDA replenishments suffer a cut of 44 per cent, India too will not escape a drastic cut in the IDA aid sanctioned in the coming year. Needless to say, this will affect many of the Sixth Plan projects which depend on IDA assistance.

Be that as it may, there is something grotesque about the manner in which the American Congressmen attacked the policies of the Indian Government, while pleading for a general cut in the U. S. share of IDA replenishment and a drastic cut in IDA aid to India. They included Mr. Jack Kemp, Mr. S. M. Edwards and Mr. Jerry Lewis. The points made by them included: (1) India, an abysmally poor country, did not make proper use of multilateral assistance and squandered its resources on building nuclear reactors, space satellites, sports stadia and so on; (2) the user of these loans is the Government, in India, whereas the private sector is better equipped to use aid funds; (3) India's taxation policy militates against considerations of growth; (4) India follows a foreign policy which conflicts with the interests of the United States (5) liberal multilateral assistance blocks the flow of private capital; (6) while the American businessmen are paying very high interest rates on their loans, recipients of IDA loans, India inculded, walk away with zero-interest loans.

The American are at liberty to adopt the policy that best suits their interests but surely, they cannot influence the aid policies of international lending institutions whose members represent a wide spectrum of political and economic opinion. Surely, the World Bank cannot reject the loan application of a member-nation on the plea that it is following an economic policy which is different from that of the United States provided it satisfies the Bank's lending criteria. Even here, the Americans cannot make much of political differences because when China, the new entrant to the World Bank, stakes a claim for IDA funds later, the Reagan Administration will be the first to support China's case. Is it the argument of the Republican Congressmen that countries which seek assistance from the World Bank and IDA should not attempt to achieve a breakthrough in sophisticated fields like nuclear energy and space technology or should remain defenceless, seeking the protective umbrella of the United States when their security is threatened by some outside power? Do the Americans need to be told that, in these matters, they follow a policy which is self-contradictory? The incongruities are nowhere more evident than in their bolstering of corrupt and repressive regimes in Latin America and Asia. America's support to militarist regimes which are indulging in squandermania does not quite square with its displeasure over India's efforts aimed at modernising its economy.

Textile Exports—MFA And All That

THERE can be no mistaking the fact that the textile industry all over the world is in a deep recession. Cost-escalation, coupled with a demand recession, has forced the industry to work well below capacity. Viewed against this background, India's cotton textile industry has not done too badly in 1981-82. The export of cotton textiles during the year is expected to reach Rs. 315 crores, against Rs. 280 crores in 1980 81 as well as in 1979-80. One needs to be reminded, however, that this increase is more due to higher unit value than to a larger export volume. The only redeeming feature has been the improvement in the exports to U.S.S.R. Indeed, the expected Russian deal involving the purchase of some 105 million metres of cloth, valued at Rs. 50 crores, has instilled optimism among the Indian exporters.

Mr. Sudhir Thackersey, Chairman of the Cotton Textiles Export Promotion Council, has given the main reasons for India's poor performance. They include (1) the abnormally high prices of raw materials caused partly by the lop-sided duty structure, with superfine varieties bearing a heavier duty; (2) the policy-bias against the mill sector which has placed a restraint on expansion and (3) the country's inability to produce cloth conforming to high standards. He rightly called for the modernisation of our textile mills, which is possible only if (1) the mills can earn surplus profit and also attract capital from the market (2) the Government allows the import of the machinery needed for modernisation on a duty-free basis and (3) the term-lending institutions offer assistance at concessional rates of interest. Disruption of production by militant labour has also affected the export drive. India, which enjoyed a cost advantage during the post-war years, is losing even that advantage, as a result of price-cutting by countries like South Korea, Hong Kong and Taiwan.

The new year has commenced with the renewal of the Multifibre Agreement which will regulate the world textile trade till July 31, 1986. To say that the provisions of the Agreement are liberal towards the textile exports of developing countries would be an exaggeration but its provisions are not so restrictive as to hurt the interests of countries like India. A major gain for the exporting countries is the removal of the "reasonable departure" provision from MFA-III. In the past, this provision was used by the importing nations to reduce their cloth offtake.

So long as the Western countries continue to face the recession, they are unlikely to step up their textile imports from LDCs. Even within the liberalised MFA, there is enough scope for them to curtail imports under the pretext of dealing with "import surges". So far as India is concerned, the ratification of MFA should augur well for the export of cotton textiles since the country is accorded special quota-free dispensation for its handloom and cottage industry "folklore" products. One should not under-estimate the importance of MFA which covers four-fifths of the World trade in textiles and clothing although what counts, in the final analysis, is the manner in which we conclude deals with individual countries.

INDIA—THE TURBULENT HALF-DECADE
BY K. N. SUBRAHMANYA
(200 pages: Price Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first years record.

Copies can be had from: **Southern Economist,**
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

Life, Literature and State Patronage

BOMBAY:

THE controversial Mr. A. R. Antulay seems to have cast his malefic shadow over Marathi writers and split their ranks. The proceedings of the annual Marathi Sahitya Sammelan—the 56th in the series—held this year at Raipur from December 25 to 27, were overshadowed by the "parallel" Sahitya Sammelan in Bombay on December 19 and 20. The main issue under discussion at both conferences was the question of acceptance of Government munificence and patronage by writers. The Bombay conference made no secret of its vehement protest at Government interference with the work of litterateurs. The Raipur conference advocated a "responsive cooperation" with those in authority.

The genesis of the split can be traced to the last annual session of the Marathi Sahitya Sammelan, held at Akola in February 1981. The Sammelan, under political pressure, adopted a resolution congratulating the Maharashtra Chief Minister, on setting up the Indira Gandhi Pratibha Pratishthan, for the benefit of writers and artistes. That was long before the trusts floated by Mr. Antulay became a subject of acute controversy. Before the session ended, however, "independent" writers, protesting against Government patronage of writers, decided to hold a parallel literary conference at Bombay at least a week before the Raipur conference.

Accordingly, the parallel conference was held at a college in Matunga in Bombay and was attended by 3,000 writers, who registered as delegates, paying for their own fees, board and lodge and travel expenses. The conference deliberately refrained from inviting any ministers and did not seek or get any government grant or official patronage in any manner. On the other hand, at the end of the session, it donated a symbolic Rs. 101 to the Chief Minister's Fund.

The conference was held on a shoe-string budget of Rs. 33,000. It had collected Rs. 47,000 from the sale of pre-recorded cassettes and books and donations from well-wishers. No donor was made to part with more than Rs. 500.

The Raipur conference, on the other hand, accepted two grants of Rs. 35,000 each from the Governments of Maharashtra and Madhya Pradesh. It had a budget of Rs. 2 lakhs. Besides the official grants in cash, the conference also availed of several other facilities provided by the two State Governments. The Bombay conference made a number of blistering attacks on the "sarkari sammelan". The result was that Mr. Antulay, who had promised to be the chief guest at the Raipur conference did not attend the conference. Mr. Vasant Sathe, Union Information and Broadcasting Minister, who had promised to release the souvenir of the conference also abstained. No reasons were given for the absence of the two ministers.

Maharashtra's Cultural Affairs Minister, Mr. Jayantrao Tilak, grandson of Lokmanya Tilak, who did attend the session, preferred to sit with pressmen, rather than on the dais. Several dissident writers boycotted the Raipur conference. Among them were Durga Bhagvat, the President of the Marathi Sahitya Sammlean in 1976, where she launched a broadside against the Emergency in the presence of Mr. Y.B. Chavan; Mr. W.L. Kulkarni, Chairman of the Reception Committee of the Bombay conference, Mr. P. L. Deshpande and Mr. Laxmanshastri Joshi, doyen of Marathi critics.

Prof. S. P. Bhagvat summed up the aim of the Bombay conference. He pointed out that it was the first step towards organising the ideal *sammelan*, devoid of fanfare, attended only by lovers of literature to iron out their problems and completely dispensing with government patronage. Jayant Dalvi, another stalwart behind the Bombay conference, said it would become a venue where readers could enter into a dialogue with their favourite authors without difficulty. Six former Presidents of the Marathi Sahitya Sammelan attended the Bombay conference. Among them were Mr. Laxmanshastri Joshi who for 20 years had been Chairman of the Marathi Sahitya Sanskriti Mandal, a government body. He alleged that government interference in literary activities was on the increase and he was totally dejected on that account.

Mrs. Malathi Bedekar, 72, who presided over the Bombay conference, lashed out at the "servile attitude of some writers" and criticised the ministers for exhibiting intolerance of dissent disregarding the preamble of the Constitution which assured dignity of the individual. Prof. Gangadhar Gadgil, President of the Raipur Sammelan, in his presidential address, called for a dialogue between writers and ministers for discussing the Government's role in literature. He said those insisting on social commitments of literature had done incalculable harm to literature. He also decried the emphasis on poverty, exploitation and inequality reflected in writings of some writers.

Prof. Gadgil said it was foolish to wish away government interference in literature since the government had pervaded all walks of life, including radio and television. Insistence on holding literary conferences without ministers would only amount to preventing any communication with those in authority. This would ultimately harm the cause of literature, he said.

Mr. Gadgil chided ministers who go away from literary conferences after accepting a bouquet and offering platitudes in return. He said it was necessary to find out why the country no longer produced writers like Premchand, Sarat Chandra Chatterji or Rabindranath Tagore, who gripped the imagination of the entire country. It was a pity, he said, that instead of the Ramayana and Mahabbarata, it was Hindi cinema, that was acting as a unifying force in the country.

— P. K. Raviudranath

Glass House Gossip

DR. Rashmi Mayur, the renowned town planner and environmentalist, who was in Bangalore recently, made the grim prediction that this garden city may go the way of Bombay and Calcutta if nothing is done to check its haphazard growth. The city's population is already close to 30 lakhs and Dr. Mayur says that it is likely to reach 55 lakhs by the turn of the century. He says that Bangalore, which enjoys the dubious distinction of being the fastest growing city in the world, is well on the way towards becoming a dead city. He also points out that 24 per cent of the Bangaloreans live in slums, which means that so far as housing conditions are concerned, Bangalore is nearly as bad as Bombay.

I wonder if the State Government is in a mood to heed the warning sounded by Dr. Mayur. Only an earthquake of severe intensity or a devastating fire in the city will shock it out of its complacency. As one who has spent nearly a quarter century in Bangalore, I have been a silent witness to its slow transformation from a garden city to a concrete jungle. Considered, at one time, to be a pensioner's paradise, it is fast becoming the Mecca of black money wallahs. The ordinary middle class pensioner with modest savings can no longer think of building a small house even in one of its outlying suburbs because land values have sky-rocketed in the last ten years. Those who have less than five lakhs of rupees can as well give up the idea of retiring in Bangalore. Since our people do not believe in orderly existence, and the State Government is not greatly concerned over environmental issues, I am not very hopeful of living long enough to see the return of tolerable conditions in Bangalore.

Like Calcutta and Bombay, Bangalore is almost a gone case. Land values keep going up because the land sharks from Bombay and other places bid for all available vacant sites. Investors in real estate are putting up high-rise apartment buildings and commercial complexes without any regard for supporting facilities like water supply. Those who acquire ownership of these flats and occupy them will be literally left high and dry if the city experiences a water famine. From the manner in which the Bangalore Water Supply and Sewerage Board is managing things, I do not rule out such a possibility.

Atmospheric pollution is worsening in Bangalore as more and more industrial units are being set up in the city and its suburbs. This is not totally unrelated to the high incidence of allergy in Bangalore. Certain localities, like the Majestic Circle, resemble a mad house. The Kempegowda Road has perhaps larger number of cinema theatres than any other road in India. If I have any power to re-shape Bangalore and make it more habitable, I would accord the top-most priority for pulling down these cinema houses. The city transport system—BTS to be precise—is under terrible strain because of the poor condition and inadequacy of the buses. I have also heard complaints that with the increase in the number of people travelling in the city buses, the revenue of BTS has shown a decline, obviously indicating leaks in its revenues.

As for the housing problem to which I already alluded earlier, neither the State Housing Board nor the Bangalore Development Authority has shown the necessary sense of urgency in dealing with the fast deteriorating housing problem in the city. As for BDA, which was a cess pool of corruption during Mr. B. T. Somanna's chairmanship, is passing through a process of spring cleaning under its new Chairman, Mr. K. K. Murthy. What can poor Mr. Murthy do when not many layouts are left for parcelling out among the homeless? Although I am somewhat pessimistic over the future of Bangalore, I can offer a few suggestions, for what they are worth: (1) place a curb on the influx of people from the other parts of the state—and from other states—into Bangalore. Easier said than done. (2) Place a ban on the construction of high-rise buildings till the city is assured of plentiful supply of water. (3) Launch massive housing schemes for the benefit of the middle class and the poor. (4) Purchase at least 200 new buses and press them into service immediately in the city. (5) Plant a million trees. (6) Inculcate a sense of cleanliness among the citizens so that they do not urinate and defecate on the side of the roads. (7) Let the city be managed by its elected representatives and not by bureaucrats who should be sent back to where they belong. (8) Train the traffic police to do their job more efficiently.

□ □ □

IN the recent by-elections to the state assemblies and parliament, Congress (I) has won some seats and lost a few. By and large, it has maintained its position. Even so, some of the election reverses should make Mrs. Gandhi sit up and think. Her charisma seems to be on the wane in Gujarat where it lost two of the three by-elections for the state assembly. Even so, this should not worry its Chief Minister, Mr. Madhavsing

Solanki, since the party has a strength of 145 in a house of 182. The party's reverses in Gujarat is said to be due to dissident activity. Congress (I) has suffered similar reverses in Andhra Pradesh. Out of 29 seats contested from local bodies for the state legislature, the party has lost nine seats — not a very large number. But what worries Mrs. Gandhi is the open hostility to the Chief Minister, Mr. T. Anjiah, and the spurt in dissident activity in the state. The former Chief Minister, Mr. Kasu Brahmananda Reddy, is reported to be behind this simmering discontent.

While Mrs. Gandhi has taken these set backs in her stride, she has yet to reconcile herself to the party's defeat at Sagar in the hands of BJP. A handful of swallows do not make a summer and, on the basis of these by-election results, I cannot predict a change in the trend. Yet, the Prime Minister has enough reasons to feel concerned. Tongues are already wagging that the postponement of the parliamentary by-election at Garhwal has something to do with the growing popularity of Mr. H. N. Bahuguna, the leading candidate of the opposition. If Mrs. Gandhi's candidate loses at Gharwal, when the by-election is held there, then one can say that it marks the beginning of the end of Mrs. Gandhi's rule.

* * *

SHOULD Mr. Vishwanath Pratap Singh, Chief Minister of Uttar Pradesh, resign or should he stay? This question is being furiously debated in the coffee houses of Lucknow. It may be recalled that after the Deoli massacre (24 harijans were killed in that village by decoits on November 18) Mr. Singh took the vow that if he failed to arrest the persons responsible for this massacre within a month, he would resign. The Chief Minister was able to get a number of alleged culprints killed in encounters with the police. He was also able to get the alleged prime suspect, Santosh, arrested. Going by these achievements, one can say that Mr. Singh need not resign but what will he say about a similar massacre which took place at Sadhupur, another U.P. village?

Frankly, I do not attach much importance to vows of this kind. What is important is that the decoit-infested states — primarily Uttar Pradesh, Bihar, and Madhya Pradesh — should take concerted action to stamp out the menace of these marauders. Unless the link between confirmed criminals and politicians is broken, this kind of atrocities will continue to take place. If I remember correctly, the Banarasi Das Government was dismissed in January 1980 on the ground that it did not deal firmly with the culprits who were responsible for the Narainpur episode. But that was an opposition Government.

* * *

WHAT distinguishes mature democracies from those that are still evolving is the manner in which the mature ones try to adhere to accepted norms of public conduct. Take the case of Mr. Richard Allen, President Reagan's national security adviser, who had to resign for committing a few minor improprieties. He resigned inspite of the fact that both the Justice Department and the White House had cleared him of the alleged wrong doings.

One of the allegations against Mr. Allen was his failure to hand over to the appropriate authorities the amount of $ 1,000 which he had received on behalf of Mrs. Nancy Reagan as honorarium for the interview she gave to a Japanese magazine. Mr. Allen's alibi was that he put the amount in a White House safe and forgot all about it (shades of Mr. Jagjivan Ram who conveniently forgot to file his income tax returns). Another charge pertained to the two watches he had accepted from his Japanese friends although, apparently, the acceptance of these gifts related to the period when the President-elect had not entered the White House. Furthermore, the fact that Mr. Allen had friends among the Japanese automobile tycoons must also have embarrassed the Reagan Admininistration at a time when the Japanese auto exports have cut into the market of the recession-hit U. S. auto manufacturers. That indiscretions can mar the fortunes of politicians was exemplified by the gift of diamonds received by Mr. Giscard d 'Estaing, from the late emperor Bokassa. His defeat in the French presidential election was not entirely unrelated to this scandal.

We, in India, do not seem to follow any rigid procedure as to how gifts received by India's dignitaries during their foreign visits should be accounted for. So far as I know, these gifts go to the treasure chest of individuals concerned. In this connection, I may recall the stories that circulated in the Rashtrapati Bhavan precints when Mr. V. V. Giri was our President. The President was above temptations but the first lady, Smt. Saraswati Giri, used to bring in a lot of costly trinkets whenever she accompanied her husband during his official tours abroad. I cannot vouch for the fact that they were all gifts received from foreign hosts but it is common knowledge that they used to cause many eye brows to be raised at Palam airport. But then, the customs procedures did not apply to the first lady.

— **Plebeian**

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

Transfer of Technology from Developed to Developing Nations

By **K. Munirathna Naidu*** *and* **G. U. K. Rao****

Transfer of technology is part of the process of development. Since countries have not developed in tandem, so to speak, those that are less developed stand to benefit from the transfer of know-how from a country that is in an advanced stage of development. But technology-transfer leads to distortions in the growth process if the technology so transferred is inappropriate to the host country's needs. In this article, the authors deal with some of these issues and emphasise the need for choosing labour-intensive and capital-saving methods.

THE term 'technology' refers to machines and equipments that are employed in production as an aid to mascular power and human skills. This includes knowledge and ideas that help the development and use of such machines and equipments. Most of the modern technology used in the developed nations involve huge capital investment, less labour, high wage rate and high markets for huge production. For example, in U.S.A., 1.5 per cent growth per annum in the productivity of labour and capital is stated to be substantially due to improved technology and skills.[1] So, to raise the level of production, new inventions are required which results in the technological change in any country.

For all developed nations like U.S.A., U.K., Germany, Japan, U.S.S.R., etc., the contribution of technology is important to their economic development. The developing economies are characterized, among other things, by a State of "Technological Gap"[2] compared to the developed ones. In technological choice, labour surplus and capital deficient countries having a small number of market channels face a real problem. So, in developing nations technology techniques should follow lowering the costs by using cheap, plentiful materials and conserve scarce resources. So, such a technology import, can therefore, be a speedy route to economic growth of a developing nation. Though it increases dependence on foreign countries to some extent, it is a "must" in certain circumstances to any developing nation. In this connection, to minimise the technological gap between developing to developed nations, importing technology is one of the major tools to attain self-reliance in all fields for developing nations. The major problem in transfer of technology in the process of industrialisation is the clash between productivity concern and objective of employment promotion in a developing nation.

In July, 1973, NATO's (North Atlantic Treaty Organization) Advanced Study Institute studied general theme of transfer of technology. It studied mainly with the mechanisms of such transfers and motivation behind them. Again in July 1975, the Institute studied about the industrial applications of transfer of technology. The main attention was focussed on the less-privileged countries which are not in the forefront of technological development. The need for technology transfer pointed out by NATO can be elaborated as follows:

1. The technological imperative which is a kind of technological determinism constantly forcing companies to increase their plant and equipment which is to be called as technological ambition.
2. To promote the value and the image of Research and Development (R & D) for which technological virtuosity becomes a necessity.
3. To improve profitability by increased integration and technical hormonization and indirectly reduce production costs and increase profits.
4. To change the method of extent of R & D programme so as to coordinate them with technology importation policies.
5. To use technology as an instrument of diplomatic relations.

The NATO has emphasised the need for technology transfer as Technological ambition, Technological spin-off, Economic motive, Science policy element and political motive for any developed to developing nation. In March, 1976, the NATO Economic Directorate organized an international symposium on technology transfers between Western and Eastern countries in order to work out political guidelines for East-West Exchanges.

Recently, a UN exploratory mission on Transfer of Technology proposed to implement the collective purchase of technology by more than one developing nation. The 3-member UNCTAD–UNDP mission which surveyed 22 developing nations has suggested that the assistance for such a collective purchase would come from international agencies, specially from UNCTAD and UNDP. This collective purchase will not only result in an overall savings but would help the development and improvement of technology on a cost sharing basis by the developing nations. It has also been proposed by the mission that a centre should be established to increase the flow of technology transfer between developing nations. The Centre's function would be coupling the engineering design consultancy services and the equipment available in these countries with finances from UN sources. The mission has also suggested that as an alternative to the formation of such a Centre, there should be an inter-linking of various institutions in developing nations. This of course, enhances the exchange of technologies among developing nations.

---

* Reader and Head of the Department of Economics, Sri Venkateswara University Post Graduate Extension Centre, Kurnool, A. P,

** Research Associate, Industrial Development Department, SIET Institute, Yousufguda, Hyderabad, A. P. (Ph. D. Research Scholar in Economics Department, S.V.U.P.G. E, Centre, Kurnool).

To make a successful transfer of technology the following are considered essentials:

1. Technology should flow fast from developed to developing nations if the difference in economic levels between nations is high.
2. The education levels in developing nations should be sufficiently high to absorb the technology from developed nations.
3. Human resources and capital should flow uniformily within the areas or fields of developing nation.
4. Technology should always be marketable and be suited for immediate use. It will be always good to reduce the inducement to use technology since the technology is highly sophisticated and cost-oriented.
5. Technology transfer must be without restrictions. Exceptions are given for classified technologies like patents, secret know-how and military technology which cannot be transfered readily.

In this paper, we consider two nations, one is developed and another developing one. Among the developed nations, Japan can be considered. Among developing nations, India has been taken into consideration in detail. Though it may be an objectionable one stating India is still a developing one, but the fact is due to the high population and being a poor nation, we consider this country as still a developing one.

The best example we can consider for the success of technology transfer in the world and throughout history is Japan. In Japan, about 70 per cent of the total amount spent on R&D is funded by privite enterprise only. The sophisticated technology thus obtained is being diverted for direct civilian and industrial use. Though USA is also a developed nation, it is found here that out of 70 per cent of the costs allotted to R&D, more than half has been devoted to Military R&D. So, Japan has achieved the highest level of technology. Today, both in quantity and quality Japanese industrial products have attained a top level in the world. The country has instilled confidence among the consumers. Today, the Japanese technology is being exported to Europe and America as well as to the Latin American countries, Arab and African nations. After importing to other countries, most of the nations which have been provided with such technology transfers, are no longer under developed but have reached a stage of semi-development. The Republic of Korea takes the lead among them.

Asia's developing nations are already siezed of the urgency of modern methods of production, which have transformed the face of Western world and other progressive areas. The developing nations are now determined to make every effort to increase their living standards. In this connection, these countries should increase their industrial output to a remarkable extent. In order to achieve their goals, the developing countries not only have to develop their know-how and manufacturing facilities, but also to import know-how from the developed nations. Modern technologies are required to provide education, training and personnel development in these nations.

India has a population of 68 crores and an area of 32 lakh Sq. kms. Its natural resources are abundent and the country is rich in mineral resources like, Iron Ore, Bauxite, Coal etc. In the initial stages after independence, India had very little development in industry. Only building constructions, textiles and sugar industry were prominent in those days. But in recent years, it has developed abnormally in its industrial production and technical know-how, based mainly on imported technology from developed nations. Presently, the country ranks 10th among the world's industrialised countries and has the largest number of technically qualified persons after U.S.A. and U.S.S.R. India is exporting its technology to many developing nations. Since independence, a large number of collaboration agreements have been signed for the transfering technology from developed nations to India. These are of 4 types:

1. Fully-owned subsidiaries of Foreign companies;
2. Companies which have a minority interest of foreign companies;
3. Companies which have no equity participation by foreign companies and;
4. Public Sector Companies which have imported technology involving no equity or any other financial participation by the technology source.

The number of collaboration agreements entered into during the three and half decades, total to nearly 5,805. Year-wise foreign collaborations approved by Government of India are presented in Table 1.

TABLE - 1

FOREIGN COLLABORATIONS APPROVED DURING 1948-1980

Year	No. of approvals
1948-55	284
1956-60	796
1960-64	1402
1965-69	890
1970-74	1294
1975-79	956
1980-	183
TOTAL:	5805

Sources: 1. Technology Transfer in Industrialised countries–Sherman Gee.
2. Technology Bulletin.

With regard to the distribution of agreements between developed nations and India, a few countries like U.K., U.S.A., Germany, Japan, U.S.S.R., Switzerland have an active part in Technological Transfer. Among them U.K. predominate with 34.8 per cent followed by U.S.A. (19.4 per cent), U.S.S.R. (15 per cent), Germany (14.6), Switzerland (7.84 per cent), Japan (5.65 per cent), France (3.5 per cent) and other nations (5 per cent) in respect of the agreements with India.

Among the type of assets concerned, predominance of know-how agreements is more in India. Nearly 51 per cent of the agreements are only know-how agreements, followed by patents, trademarks and know how with 25 per cent, patents and know-how 9 per cent, trademarks and know-how 9 per cent, trade marks 5 per cent, patents and trade marks 1.5 per cent and patents 0.5 per cent. This clearly indicates that purely patent agreements are very few. Another important factor is the distribution of agreements by industry in India. Table 2 gives the distribution of foreign agreements between 1964 to 1980 industry wise in India.

TABLE - 2

INDUSTRY WISE DISTRIBUTION AGREEMENTS : 1964 TO 1980.

Industry		No. of Agreements.
Plantation and Mining		24
Petroleum		9
Manufacturing		3189
(a) Foods, beverages and tobacco	18	
(b) Textile Products	153	
(c) Transport equipment	366	
(d) Machinery & Machine Tools	797	
(e) Metals & Metal Products.	373	
(f) Electric goods & Machinery	633	
(g) Chemicals & Allied Products	545	
(h) Rubber Goods	58	
(i) Miscellaneous	246	
	3189	
Other Service Sectors		112
TOTAL :		3,334

Source : Technology Bulletin, 1980.

The industrial policy announcement of July, 1980, focussed attention on development of SSI Units with new technologies. This development, in particular, aims to take industrialisation into the semi-urban and rural areas. It implies, to a certain extent, importing new technologies into the semi-urban and rural areas in order to achieve the successful industrialization throughout the country. The main constraints to import technologies in these areas are, narrow market and limited skills for both operation as well as maintenance. Highly sophisticated techniques will not be suitable for this sector. So, the Government is laying emphasis on technology development which suits the present availability of resources and manpower by restricting imported raw materials to those areas. Companies which have established R & D Organisations, and demonstrated their ability to absorb, adopt and disseminate technology, will be permitted to import such technology as will increase their efficiency and cost-effectiveness. This will not only lead to saving of foreign exchange but would also ensure self-sufficiency and higher foreign exchange earnings.[3]

We need to import more appropriate technology which suits the present resources of rural areas. Expeditious establishment of effective technology is the paramount requirement of key sectors like energy with regard to local circumstances, they may be more critical in some other sectors like agriculture. For example, in U. S. A., land is abundant and manpower is expensive. But in India, unemployment and under employment is high and cultivable land is a constraint. So, a technology which creates employment should be encouraged. To get more agricultural production, there is need for technology which improves the production of Fertilizers, Pesticides etc.

Even though modern technology adds more unemployment to a country, for certain industries it is a must. For example, petroleum and chemical industries etc., whereas for other industries like textiles which have more employment potential, the transfer of technology will not have a chance to put in. Energy is another field where major technological breakthrough will have to be achieved in the near future. Current projections indicate that againt a requirement of 1,85,000 MKWH of electric energy in 1983 84, only 16,800 MKWH will be available. This is 10 per cent less to the requirement. Though, India has abuundant coal resources, there is much that can be done in terms of development of indigenous technology to meet the challenges in near future.

The present Government's Policy lays emphasis on the development of technology within the laboratories so as to make it available to the SSI and tiny sectors. The N.R.D.C (National Research and Development Corporation) has been primarily set up as a link between laboratories and industrial units. The N.R.D.C. has been associated with importing technology from foreign collaborations to the industrial units. In addition, N.R.D.C. will invest a certain amount for transfer of technology to these industrial units as an aid to the entrepreneurs.

The NRDC is a public sector corporation in the department of Science and Technology, charged with the responsibility of translating technology from national laboratories into industry. The organisation was registered in December, 1953. The main activities of NRDC are as follows:

1. Transfering Technology and licencing know-how developed in the R & D institutions in the Country.

2. Following Technological gaps in the country by promoting development projects in collaboration with industry.

3. Encouragement of inventive talent in the country.

4. Promoting horizontal Transfer of Technology from industry to industry.

5. Promoting utilization of Indian technology in abroad. N. R. D. C. continued to make efforts for export of technology. The participation of NRDC in the international exhibitions and trade fairs has generated large number of enquiries from different countries. India exports technology to countries like Gulf, Nepal, Burma, Bangla Desh, Ceylon, Tonzania, Kenya etc.

Optimization of the use of agricultural resources and their use in development of economically sound industries can add substantial amount of value to the primary produce as well as provide additional employment, conserve food, raise nutritional standards, earn more foreign exchange and raise the level of over-all self reliance. This would require careful selection of appropriate technologies and their effective use.

The Government of India has been periodically issuing guidelines for importing technology. In the early stages, technology import was allowed in practically all the fields but in its recent years, foreign collaboration is permitted only in the areas of high priority and where the import of foreign technology is considered necessary. For Transfer of technology from developed to developing nations (with particular reference to India) the following suggestions are made:

1. Assessment of technology should not be done merely on the basis of notions such as per unit efficiency but should be made in a manner which suits the local context and social objectives.

2. Transfer of technologies is not the cure to the problem of developing nations. They should be in a position to digest those technologies and appropriately use their resources and manpower.

3. The technologies for rural development such as preparing bio-gas etc., needs to be exploited in a big way in the rural areas.

4. The technologies should be imported to prepare new products like alcohol etc., from agriculture, food grains and waste materials.

5. There is an urgent need for developing nations to integrate the set of policies on Transfer of Technology with those on technological development.

6. Information about machinery used in new technology should easily be accessible to potential entrepreneurs.

7. Technology should always be easily available for immediate use throughout the country.

8. State agencies like Industrial Development Corporations should pioneer for joint ventures with new technological transfers.

9. By involving laboratories in planning, procurement agencies one can facilitate action on their part to transfer of technology to industry which would be needed for further development.

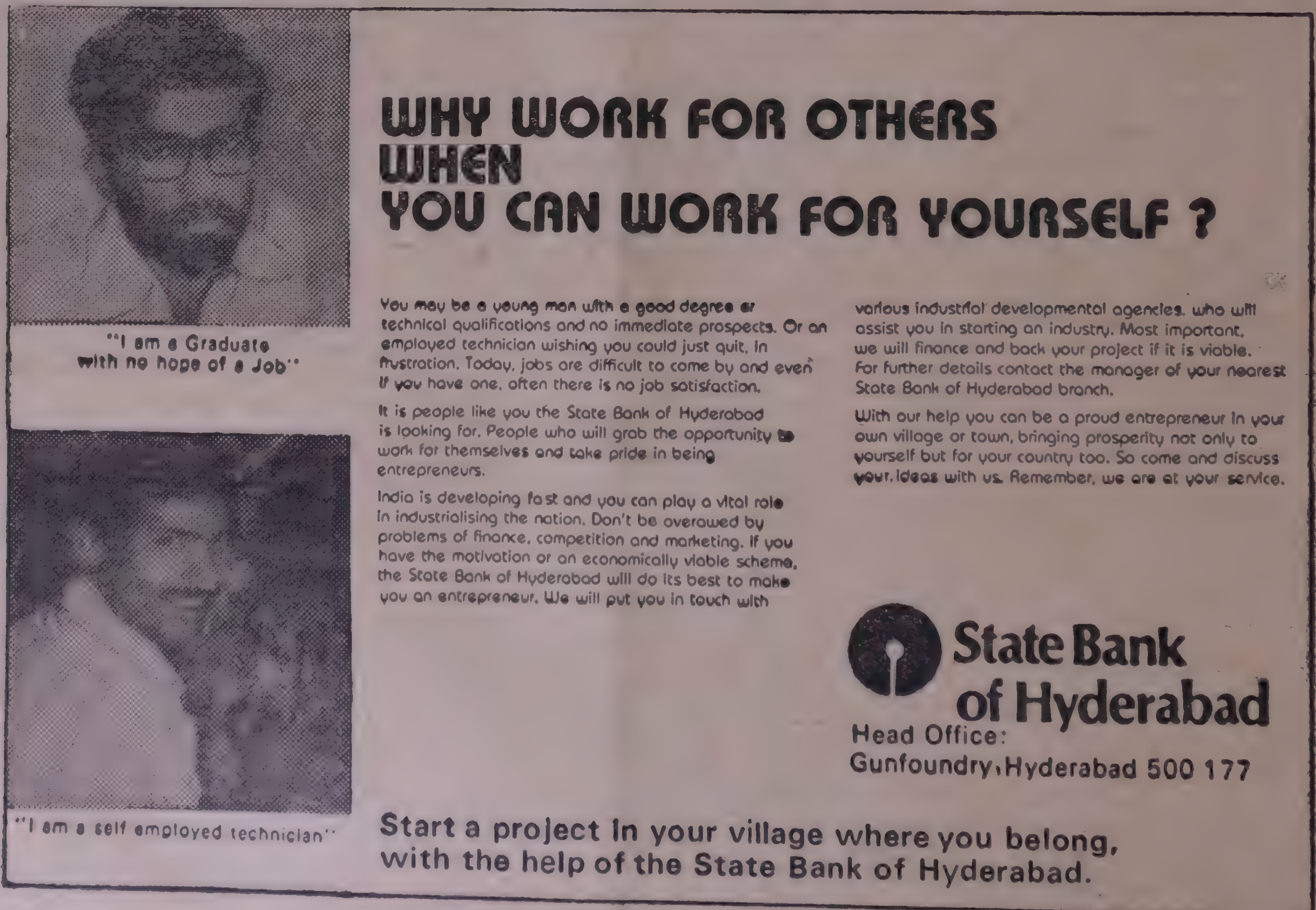
10. New technologies create more pollution to the area and so until an appropriate technology is evolved it should not be indiscriminately applied to the thickly populated nations like India.

REFERENCES

1. Paul Samuelson, "Economics—An Introductory Analysis", 1961, p. 571.

2. "Economic Theory and Transfer of Technology" — (Daniel L. Spencer and Alexander Woroniak).

3. Industrial Policy Statement announced in Parliament by Union Minister of State for Industry, Government of India, Dr. Charanjit Chanana on 23-7-1980.



"I am a Graduate with no hope of a Job"

"I am a self employed technician"

WHY WORK FOR OTHERS WHEN YOU CAN WORK FOR YOURSELF ?

You may be a young man with a good degree or technical qualifications and no immediate prospects. Or an employed technician wishing you could just quit, in frustration. Today, jobs are difficult to come by and even if you have one, often there is no job satisfaction.

It is people like you the State Bank of Hyderabad is looking for. People who will grab the opportunity to work for themselves and take pride in being entrepreneurs.

India is developing fast and you can play a vital role in industrialising the nation. Don't be overawed by problems of finance, competition and marketing. If you have the motivation or an economically viable scheme, the State Bank of Hyderabad will do its best to make you an entrepreneur. We will put you in touch with various industrial developmental agencies, who will assist you in starting an industry. Most important, we will finance and back your project if it is viable. For further details contact the manager of your nearest State Bank of Hyderabad branch.

With our help you can be a proud entrepreneur in your own village or town, bringing prosperity not only to yourself but for your country too. So come and discuss your ideas with us. Remember, we are at your service.

State Bank of Hyderabad
Head Office:
Gunfoundry, Hyderabad 500 177

Start a project in your village where you belong, with the help of the State Bank of Hyderabad.

T & S-894

Is Import of Technology from Developed Countries Absolutely Necessary?

By **C P. Sunitha** *

Technology transfer has come to be accepted as a necessary concomitant of the growth process but its appropriateness to the situation prevailing in individual Third World countries is being questioned in many instances. What is important is the net gain that a developing country can expect in technology transfer. Int his paper, the author analyses the pitfalls that should be avoided in the import of technology. She emphases the need for ensuring continuity in this process of technology transfer.

HOWEVER rich the resource base of an economy may be, it cannot meet all demands of the growth process due to various inhibitions like the non-availability of raw materials, technical know-how, capital equipment and so on. These constraints may be overcome by supplementing domestic resources with external resources and by substituting less-expensive resources for non-expensive ones. This is also realised when a country in possession of growth promoting resources like capital goods and technical know-how, transfers its resources to some other country for initiating and sustaining the growth process, in the latter country.[1]

The developing countries are not only capital poor, but also technologically backward. As such, foreign capital helps to solve this problem by filling gaps like savings gap, trade gap and technological gap. In technologically-backward countries, the role of technology in economic growth is obvious. Technology has been the mainspring of economic development and those countries which have made the best use of technology, are the ones who have made the greatest strides. The driving force behind growth is the competitive urge and this spurs the technological leaps of today. To quote Galbraith, "Technology is the systematic application of scientific or other organised knowledge of practical tasks". Technology defines a production function, since it is a spectrum of available techniques, which define the various combinations of inputs which will yield any given output.[2] The level of technology in a developing economy can be raised either through the internal evalutionary process of education, research, training and experience or transfer of technology from developed countries.

Trensfer technology from the developed to developing economies is the rule, rather than exception. This is because the lack of technological progress is a significant cause for the condition of underdevelopment in the Third World countries. Technology transfer implies the transfer of technical knowlege from one country to another either through deliberate government policy or by private channels of communications.[3] To accelerate the rate of economic growth in the Third World countries, technological change is essential. Hence, every effort is made to adopt higher technology by the development of net techniques within the country as well as through the import of technology from MDCs.

According to Prof. Schumpeter, technological progress is the important determinent of economic progress. It is the technological progress that keeps the economy moving since the process of growth would stop, if level of technology becomes constent. A peep into the economic history of developing countries indicates that the economic growth could be accelerated with the import of technology from MDCs. In every field and every sector of LDCs, foreign technology is present, either by way of imports or through foreign collaboration. The transfer of technology ranges from the knowledge regarding the utilisation of Solar energy, atomic energy, improved cultivation method and similar other technical knowledge in various fields such as biology, medicine, physics and so on. There are different modes through which a transfer of technology from MDCs to LDCs, takes place. To name a few:

through the flow of knowledge, ideas, journals, etc.;

through patents and licences;

through foreign investment and the associated transfer of knowledge, know-how and equipment;

through the mobility of personnel and personal contacts between technologists;

through import of capital and machinery and techniques and methods of production;

through technical co-operation programmes.

In practice, technological transfer rarely takes place in a combination of several possibilities. In the course of import of technology for the development of various sectors, a typical Third World Country becomes linked rather asymetrically with advanced capitalist countries, international financial organisations and transnational corporations. The type of linkage changes in the course of time, but does not end. There remains a continuity of linkages, however different the form may be.

The positive effects of technology depends decisively on the overall strategy and the behaviour of the exporters on the one hand, and upon the conditions of acceptance and the absorption capacity of the receipient country, on the other. There are a number of positive effects of transfer of technology from developed to developing countries. It transfars technological and entrepreneurial know-how as well as training of employees; contributes toward satisfying capital needs and strengthening balance of payments; improves employment potential and the income situation; diversifies regional and sectoral production structures and the development of infrastructure; contributes toward import substitution and the export diversification: and helps in the mobilisation of local resources in various sectors. Technological transfer is not only connected to the transfer of capital, which is scarce in developing countries but also includes a heterogeneous assortment of monetary, material and non-monetary material efficiency factors. This transferred technological potential can radiate beyond the projects into the spatial diffusion of technological progress.[4]

---

* Member, Faculty of Economics, Institute of Correspondence course and Continuing Education, University of Mysore, Mysore-570 006,

The 1960's marked a dynamic growth in the international exchange of technology. World trade in manufacturing technology in all of its various forms is developing very rapidly. The emerging trends in the world trade shows that know-how has been one of the fastest growing items, raising from $ 2,7 billion in 1965 to more than $ 11 billion in 1975. At present the bigger industrial capitalist countries are experiencing far-reaching changes, having very sophisticated and advanced technology. It may be noted that these countries account for 89 per cent of the world's import of licences.[5] Practical experience shows that very often, known processes or processes already introduced in industries are sold on the world market. However, recently, buyers have exhibited mounting interest in "future" processes, which offers broad possibilities for the effective realisation or scientific and technological achievements.

The desire or demand of the Third World countries for an increased transfer of technology has grown markedly over the past few years. In this, the goal of bridging technological gap *via* an increased transfer of technology is sought at various levels and with different instruments. General development goals of LDCs such as economic and social progress and thus an improvement in the living conditions is pursued *via* the transfer of technology. The present day international economic relations necessitate that the situation in the sphere of technological transfer be normalised in the interests of all groups of countries. Problems of the transfer of technology have been taken up by a number of International bodies: the U. N. General Assembly; conference of the non-aligned countries[9] heads of states and governments; regional conferences and seminars on the transfer of technology; and the North-South Summit.

In 1974, at its special session, the U. N. General Assembly adopted a declaration on establishing a NIEO, which must be based specifically on granting the Third World countries, access to the latest achievements of science and technology and assisting them in the transfer of technology. The session also stressed the need for an international code of conduct on the transfer of technology corresponding to the requirements and conditions prevalent in the developing countries. The fourth UNCTAD session (1976) also devoted much attention to technological transfer problems. It passed a resolution recommending to set up an "inter-governmental panel" of experts to speed up the drafting of the code of conduct on the transfer of technology. The inter-governmental panel of experts has had six meetings. Moreover, three sessions of the UN conference were devoted to the international code of conduct on the transfer of technology. The fifth UNCTAD session (1979) again discussed the question of its final completion.[6] In October 1981, at the 22-nation cancun 2-day summit, transfer of technology to LDCs was one of the leading topics of discussion to bridge the existing North South gap.

In the international debate on relations between developing and developed countries, the question of transfer of technology has assumed special importance. LDCs want such transfer to take place on more liberal terms and more freely. MDCs argue that the ownership of technology vests in private firms and agencies and they cannot do much to ease the terms on which it is made available. There is also an undercurrent of argument gathering momentum in some of the developed countries that a restrictive policy regarding the transfer of technology is essential to preserve their prosperity and superiority.[7] The monopolistic practices of technology transfer are in glaring conflict with the objective needs of the absolute majority of countries. As such, international regulation needs to be applied to all flows of technology transfer.

Technology is power and MNCs which portray themselves as the vectors of technological salvation, have monopolised this power. The double role played by Multi National Corporations is very indicative. MNCs promote advanced technology, carry out intensive research organise large-scale manufacture of science-intensive commodities and transfer technology to many countries, since they possess mature production procedures and experiences. From this constellation, it becomes clear that all their activities along these lines are intended to net them large profits. It has been estimated that the developing countries will pay over $ 6 billion for technology in five years' time from 1980 to these giant corportions. The MNCs ratain their ownership rights, sell it at higher prices and actively resort to various restrictive practices, while transfering technology. The situation is particularly adverse in the transfer of technology from the imperialist countries to the developing nations which many western economists and experts admit. For instance, in an article, entitled, "Control over MNCs" the British economist writes that these Corporations hand over to the third world countries either absolute technology or that which is too advanced. They over pay or under pay and go to any length to outcompete the local firms.[8] Unbridled MNCs have not only posed a threat to national sovereignty, but as Galbraith rightly put it, have internationalised the tendency to inequality.

The Third World countries are saddled with obsolete technology, an extra-ordinary high capital output ratio, grossly inadequate Research and development and only feeble attempts at modernisation. The really sad fact is that in many cases, they are not even aware of their obsolescence. This comes from having a protected domestic market, cut off not only from foreign competition but also from knowledge of what is happening elsewhere in the world. The Third World countries meet with various difficulties at the very outset of their bidding for technology being a weak partner both economically and technologically. Through the acquisition of technology, the developing countries do obtain certain up-to-date know-how and equipment, but this process is accompanied by their growing technological dependence on imparialist powers.

The terms of technology transfer reduce the LDCs' value for purposes of economic development and often have an advarse effect on the formation of the technological potential. Technology supplied to LDCs is either too sophisticated to adopt or too obsolete to reduce the cost of production. Most of the technology transferred are inappropriate, which are not consistent with the requirements, standards and income levels of these countries. It is also argued that the imported technology reduces real income and employment and may also kill the initiative. Very often, LDCs do not know as to what type of technology import would be best for them. At the same time, local conditions may be such that foreign technology cannot be productively absorbed. Since factor endowments are different in different countries, some technology may not be useful everywhere.

Another objection to the import of technology which is often put forward is that it comes in the way of self-reliance and perpetuates technological domination by and dependence on the foreign countries. Sometimes, the governments of the Third World countries are under the false impression that only imported technology furthers national development. To complete the picture, account must also be taken of the technology used for strategic purposes—weaponary, electric devices and nuclear development. These are areas where most countries have a highly restrictive policy regarding technological exports, permitting them only to those countries which pay a political price in addition to financial one. The major weakness in the existing practice is that often, the initiative is not of recei-pients, but of the intending sellers of technology.[9]

Various suggestions have been made to bring about changes in the field of transfer of technology. At the outset, the import of technology raises two issues, viz., the chotce of technology and local adaptation. The act of choosing a particular technology depends on the state of domestic complementary research because, only then will a country be able to know the quantity and quality of the know-how to be imported and the price to be paid for it. Adaptation of technology contemplates that the imported technology needs to be regulated and assimilated to suit the local needs.

To trigger the technological spread effects desired by development policy, the absorption capacity should be expanded. Thus, sufficient knowledge of local, regional and possibly even national technological absorption capacities is required for an effective technology transfer which has positive developmental effects. Developing countries have to clarify, which propartion of domestic production should be handled with imported technologies and which with the already available indigenous technological potential. In order to be able to absorb new technology from abroad, the recipient must already have advanced to a point where the gap between the two is not large. This is possible when there is long term arrangements between the donor and recipient than outright purchases of know-how.

Preference should be given to that technology which meximises employment and minimises the deployment of capital. In the third world countries, only through a proper use of technology, the productivity can be raised; their markets expanded and the living conditions improved. Technical assistance must be integrated more closely into the development process. To accelerate the rate of technological development, LDCs have to devise ways and means to attract the right type of talented personnel. It is being suggested that the international technical assistance be strengthened by the creation of national and international corps of technical assistance personnel with adequate career opportunities. Another major flaw in the technological policy of the developing countries has been the concept of high technology. Any new and sophisticated product is regarded as a high technological item and welcomed, while mass consumption consumer products are regarded as low technological items. The choice of technology may look attractive to a non-expert.

Dr. A.S. Ganguly, Chairman of Hindustan Lever, in his speech at the annual General Body Meeting of the Company, suggested a task force consisting of the representatives from different fields, interested in technological development to identify, modernisation needs in different sectors, the appropriate technology to be chosen, employment generation, exportable surplus and R & D requirements. The governments of the Third World countries have to ensure adequate rewards for companies to go in for R & D in a big way. It is not enough merely to give tex concessions for R & D expenditure which may be used only to dodge taxes rather than to increase productivity. To provide a new stimulus to innovation and adoption, reward for technological research should be related to the results achieved and not just, to the amount of money spent on research.

When a buyer purchases technology, he must bear in mind that it is important to master it and further develop it. In this case, co-operation between the importer and exporter while installing and employing process is very effective. Moreover, modernisation and development must be regarded as a continuous process, not one dependent on occassional imports of technology. Co-operation between the exporter and importer of technology on a long term besis paves the way for uninterrupted modernisation of processes through the joint efforts of both partners. To develop and modernise technology, as G. M. Meier observes, both imported technology and domestic research have to go hand in hand for quite some time.[10] For succesful economic cooperation, adherence to the principle of mutual advantage of parties is important. It has also been suggested that the World Trade Centres Association (WTCA) which is an integration of International trade centres can render diversified services including the technical services. At the same time, there are a number of new activities which the Export-Import Bank can take up in this field. For instance, the Japanese Export-Import Bank provides finance for technical service experts.

A comprehensive technology transfer from MDCs to LDCs cannot be avoided because the reduction of technological bottlenecks in the Third World is of absolute necessity. This observation is in no way meant to negate the necessity of promoting indigeneous research and development potentials in the Third World.[11]

REFERENCES

1. *The Indian Economy* — Ishwar, C. Dhingra, p. 359.
2. *The Economics of Research and Technology* — Keith Norris and John Vaizey; p. 20.
3. *The Third World Economist;* July 1981, p. 13.
4. *Economics* — Volume 20; p. 84,
5. *Foreign Trade* — 1, 1980, U.S.S.R.: p. 30.
6. *Foreign Trade* — 11, 1980, U.S.S.R.; p. 28,
7. *Economic Strategy for the 80's*— L. K. Jha, p. 142.
8. *Foreign Trade*-11 1980. U.S.S.R. P. 27.
9. *Economic strategy for the 80s*, L. K. Jha, P. 143.
10. *Leading issues in Economic Development* — G. M. Meier, p. 324.
11. *Economics* — Volume 20; p. 81.

BHEL's Role In Quality Control

The Electroporcelains Division of Bharat Heavy Electricals, Bangalore observed Quality and Reliability Week during 14 to 20 December, 1981. The Q&R week was inaugurated on Monday December 14, 1981 by Mr. P.V. Ramaiah, Chairman, Karnataka State Electricity Board. Speaking on the occasion, Mr Ramaiah highlighted the importance of quality of porcelain insulators which form an important component of power systems. Earlier, Mr H.R.S. Rao, General Manager of EPD/BHEL, welcomed the gathering. Citing the example of how the Japanese have been able to progress in the last thirty years to become one of the word's most leading industrialised nations by their emphasis on quality. Mr Rao narrated some of the modern quality measures introduced in EPD/BHEL in the recent past with encouraging results. The improvement achieved in the productivity and quality of Solid Core Insulators for the 25 kV Railway Traction by employing the modern statistical methods is one such example, he mentioned.

Mr. S R. Udupa, General Manager, BHEL, Hyderabad emphasised the need to involve the workers at the grass root level in the quality movement, and narrated how the Hyderabad plant was able to make a significant improvement in productivity and quality by forming Quality Circles in which the workers themselves chalk out their quality plans. Mr. K.R. Parameswar, Executive Director, BHEL, Bangalore, presided over the function.

Telegrams : PESTICIDES **Telephone : 27231 & 27232**

BANGALORE PESTICIDES LIMITED

33, SANKEY ROAD CROSS, BANGALORE - 560 052.

SALES DEPOTS :

SINDHANUR TIRUCHIRAPALLI GUNTUR ANANTAPUR

FOR COMPLETE CROP PROTECTION USE :

BANGGAMME □ BANGDIT □ BANGVIN □ BANGSULFAN

BANGSBAN □ BANGMITE □ BANGTAN □ BANGCOP

MICROSULF

Energy Crisis in India: Case for Biogas Form of Energy

By **D. D. Guru** *

The growing scarcity and rising prices of petroleum products since the beginning of the seventies has led to active thinking about the ways to meet the energy crisis. India has also been affected by the prevailing energy crisis in the world. This paper analyses the nature of energy crisis facing the Indian economy and the methods to deal with it. The paper is divided into two parts. The first part brings out the nature of energy crisis facing the Indian economy. The second part discusses the role of biogas form of energy.

I

ENERGY consumption is unavoidable part of any activity. The process of production and development cannot proceed without the consumption of some form of energy. The supply of energy comes from various sources like human or animal effort or through the consumption of minerals like coal, oil or through the transportation process of water, sun's rays, wind, animal, human and other wastes. These sources are classified into conventional and non-conventional types. The conventional type covers generally the electric power generated through thermal or hydel sources on the one hand and the use of petrolium products on the other. These sources have been important features of the process of industrialisation. The use of coal for generation of electricity has been a popular source of energy in the process of industrialisation. There was also abundant use of petrolium products as a source of energy till the beginning of seventies.

The formation of OPEC and its strategy of raising the price of petrolium products led to the balance of payment problem of most countries especially the non-oil exporting developing countries. The Indian economy being deficit in oil, had to face the problem of meeting the higher import bills. The crisis in the oil market naturally led to the problem of energy crisis in the world and hence in our country as well. There was the growing realisation that higher prices of petrolium products could produce serious bottleneck in the process of development. Attempts for increasing the domestic supply through the on-shore and off-shore drilling of oil especially the Bombay High efforts have no doubt been helpful in easing the problem a little bit, the mojor problem of dependence of economy on imported oil and its rising cost remains. Even now, the average import of oil at around 16 million tons out of the total consumption of oil of around 32 million tons is very high. The import bill of petrolium products is between Rs. 5,000 to Rs. 6,000 crores out of the total imports bill of the country at around Rs. 10,000 crores and the total export earnings of around Rs. 7,000 crores. The rising cost of oil have been leading to the drainage in the foreign exchange reserve which has reached the level of Rs. 4,000 crores after resorting to drawing from IMF to the tune of around Rs. 800 crores. The oil is therefore a most critical source of energy for the country and dependence on it need to be controlled.

Another important source of energy has been electricity. Thermal power and hydro-electricity are its two important sources. Attempts have been made over the years to increase the generation capacity of the country. The generation capacity in the country increased from 2,300 MW, in 1950 to 31,000 MW, in 1980. But the generation capacity have always fallen short of the targets in the different five-year plan periods. The very First Five-Year Plan had suffered a setback in so far as the achievement was 15 per cent less (1,100 MW) than the target of 1,300 MW. In the Second Plan period only 1140 MW (35.7 per cent lower) capacity could be installed against the target of 3,500 MW. In the Third Plan, 4,522 MW capacity was installed against the target of 7,040 MW represanting a shortfall of 35.8 per cent. During the three Annul Plans (1966-69) the actual installation was 24.1 per cent less to 4,120 MW than the target of 5,430 MW while the actual installation fell short of 55.8 per cent to 4,160 MW of the target of 9,200 MW, during the Fourth Plan, it was only 10 per cent lower at 10,220 MW than the target of 12,500 MW during the Fifth Plan. Under the Sixth Plan, the energy ministry has set the target of 19,666 MW of additional capacity. With the post performance in mind one could naturally be not sure about the actual achievement of the target.

One of the major shortcomings of the electricity management in the country has been the relatively lower level of capacity utilisation. The average rate of capacity utilisation has been steadily decling in this decade hitting all time load of 45.4 per cent in 1979-80 down from 52.7 per cent in 1977-78 and 49.5 per cent in 1978-79. The Rajyadhyasha Committee on power suggested a modest 58 per cent norm. Had this been maintained, the Committee concludes, there would not have been any power shortage in 1979-80. The closest that was achieved was 55 per cent in 1976-77. Forced outage which is the total number of hours in a year the plant is closed down due to unscheduled events like breakdown. Turbo-generator breakdowns and boiler troubles account for one half to one third of lost time. The poor performance of thermal power plants in the country could be seen more

---

* Dr. D. D. Guru is Professor and Acting Director, L. N. Mishra College of Business Management, Bihar University, Muzaffarpur-842001.

TABLE - 1[1]

THERMAL POWER PLANT PERFORMANCE IN INDIA DURING 1973-74 TO 1979-80

Year	Planned Outage %	Forced Outage %	Plant availability	Partial unavailability	Lack of demand %	Plant load factor %
1973-74	19.9	8.8	71.2	20.8	—	50.4
1976-77	9.8	13.2	77.2	14.4	7.3	55.3
1977-78	13.3	14.2	72.4	14.3	5.4	52.7
1978-79	14.3	14.7	71.0	16.2	5.3	49.5
1979-80	12.3	18.8	68.9	17.5	6.0	45.4

[1] *Business Week*, May 25 to June 7, 1981, p. 43.

clearly from the table given above.

It can be seen from the above table that planned outage which is due to schedule shut down of power plant for planned maintenance had reduced from 19.9 per cent in 1973-74 to 9.8 per cent in 1976-77 has been increasing over the years and was at 14.3 per cent during 1978-79. The forced outage also shows increase from 8.8 per cent during 1973-74 to 18.8 per cent during 1979-80. The partial unavailability figures which indicates generation hours lost due to operating difficulties that prevant generation from plant that is neither broken down nor closed for maintenance, e. g., coal shortage, equipment leakage etc., also stands at fairly high level of more than 15 per cent.

The transmission loss of electricity is also high. This is partly unavoidable in view of the long distance transmission that become necessary on account of geographical reasons. This is specially so in the case of rural electrification schemes under which the transmission lines and losses are naturally higher. There exist wide gap between rate of power generation and the rate of increase in demand for power. The rate of increase in production of power at around four per cent in the last few years has not kept pace with the rate of increase in demand estimated at 9.5 per cent. The demand is likely to grow at an even higher rate of 11.3 per cent between 1980-85. The shortfalls in power supply have been increasing over the years. The shortfall increased from 10.3 per cent in 1975-76 to 15.5 per cent in 1977-78 and to 16 per cent in 1979-80.

The generation of electricity is mainly through the thermal sources which requires the use of coal. Approximately 57 per cent of power generation in India is from thermal stations (mainly coal). In 1983, this percentage is expected to 64 per cent. The dependence on coal for generation of power raises important issues relating to not only its being a non-renewable source of energy but also the various kinds of external cost that it raises in the form of environmental and health problem. The total stock of coal at the moment is not alarmingly low but it would be advisable to conserve this non-

Made out of the Finest Materials

MANGALORE GANESH BEEDIES

Smokers cannot afford to miss them

DAILY SALES EXCEED 8 CRORE BEEDIES

Head Office:

MANGALORE GANESH BEEDI WORKS
VINOBA ROAD : : MYSORE-570 005

Telephone: 20241

Telegrams: 'AROMA'

renewable source of energy for the future generations. It is better to think in terms of finding alternative source of energy based on the renewable resources.

II

With the growing scarcity of fossil fuels and their rising prices, attention is being paid to finding alternative non-conventional sources of energy. The non-conventional sources of energy are based on renewable sources. Non-commercial energy resources in India consist primarily of firewood, cowdung and vegetable waste. These non-commercial energy sources account for at least half of the total energy consumption in India (the actual proposition depending on low energy consumption is measured). The Fuel Policy Committee estimates that 123 million tons of firewood and charcoal and 67 million tons of dung cakes and 38 million tons of vegetable waste were consumed as energy in 1970-71. In terms of coal replacement, these amounts were equivalent to 117, 27 and 36 million tons of coal respectives.[1] In terms of coal replacement, the share of non-commercial sources fell from 60 per cent in 1960-61 to 48 per cent in 1970-71. In fact one might expect the share has fallen constantly since the first statistics was gathered in 1953-54.

India has 75 million hectares of forest land of which 60 million hectares is said to be potentially useful. For the year 1969-70, the recorded fuelwood harvest from State forest amounted to only 9 million tons out of 130 million tons of estimated annual consumption.[2] Cow-dung and vegetable wastes are renewable resources in the sense that so long as draft animals are employed in production and crops are produced, these energy will be produced as by-products. However the cow-dung has an alternative use as fertiliser for crop production. Some of the vegetable wastes could be used as animal feed. It has been proposed that these resources be used as raw materials for generating biogas (methane gas) at the village or farm level to provide a more efficient energy conversion of the resources at present. Used in this manner, the potential energy has been estimated at 100 million tons of coal replacement.

The Utility of biogas as a form of non-commercial energy for meeting the domestic demands, has been growing in importance in some of the countries of the world in the face of increasing scarcity of fossil fuel and hence their rising cost. An experiment is going on for substituting the use of fossil fuel by non-commercial form of energy like that of biogas, solar energy etc.

The principal energy ingredient in biogas is methane CH_4 or natural gas. Biogas is formed in two ways (1) when organic material is left exposed to air, the gaseous byproduct of decay escapes into atmosphere and residue is compost. The decay process is termed aerobic because it is enabled by bacterias that works in the presence of oxygen. (2) The process of forming useful biogas is known as anaerobic digestion since it occurs in the absence of oxygen. During the first phase sludge materials are broken down into smaller molecules. Organic compounds are oxidised to acids or alchohols, the oxygen in the material is fed to the digestor and large amount of carbon-di-oxide are formed. In the second phase, bacteria convert the acids and alchohols into methene and carbondioxide. Ganerally, 60 to 70 per cent of the gas formed is methane. This requires a delicately balanced environment. Changes in acidity, temperature, input mix, and other factors affect the pace and yields of the reactions. For example the amount of gas gathered is a feeder of temperature. About twice the amount of gas per tonne of manure is produced at 75°C (167°F) as at 25°C (77°F), Methane generally stops completely below 10°C. Methane generation in North India in the winter frequently falls beneath this thrashhold and under such conditions, some biogas have to be used to provide heat for the plant thereby reducing its net yield.

One of the ways of creating biogas is through the water hyacinth. The recovery of fuel from water hyacinth and other aquatic means, even on a small scale, has interesting implication, specially in rural areas. While water hyacinth cannot be burnt to produce heat energy, attempts are being made to capitalise the natural processes of anaerobic decomposition to produce biogas. The high moisture contents of aquatic weeds is an advantage in this process as it is needed for decomposition.

In a pioneering work conducted on bio-conversion of water hyacinth into methane gas in U.S.A., it was estimated that each kilograme of water hyacinth on dry weight basis yields about 370 litres of biogas with an average methane content of 69 per cent. The biogas thus produced can be used as fuel for cooking, lighting, running of diesel engines and as a source of power. The residue left after the decomposition is used as manure. Although a large number of biogas plants are in operation in the country, these, however, process mainly cattle dung. The present conventional design of 'Gobar Gas Plant' cannot as such be used for processing of water hyacinth as choking of inlet and outlet pipes and scum formation due to floating nature of the material have been observed.

Laboratory experiments conducted at Central Mechanical Engineering Research Institute, Durgapur (West Bengal) have indicated that chopped and dried water hyacinth mixed with water in 1:2 proportion or mixed with cattle dung in 1:1 proportion and then slurry prepared, yield biogas. The gas generation from water hyacinth and dung mixture is less dependent on change in temperature than gas production from cattle dung alone. Experiments conducted at the University of Agricultural Sciences, Bangalore, showed that water hyacinth alone as well as in combination with cattle dung is a good material for biogas production. In similar experiments carried out at Sri Parasakthi College for Woman at Courtallam, it was observed that water hyacinth with nights-oil yield more gas than a mixture of water hyacinth and dung, urine and water hyacinth gave more biogas and nitrogen — rich manure than individual material. At Gobar Gas Research Station, Ajitmal (U.P.) it was found that water hyacinth to dung in 3:2 ratio was a good combination for obtaining high quantity of gas containing low concentration of Carbon-di-oxide (24 per cent). However, trials conducted by using these material in domeshape biogas plant were unsuccessful as removal of slurry under force of gravity was not found and the material formed scum layer.

---

[1] Government of India, Fuel Policy Committee Report, p. 9.

[2] Tyner, Wallace K., *Energy Resources and Economic Development in India*, Allied Publishers, Bombay, 1978.

A "scale-up" model plant has been constructed at Central Mechanical Engineering Research Institute, Durgapur to determine design parameters for construction of actual working plant of 2-3 Cu.m. gas production per day capacity. One such plant has been constructed recently by using bricks, cement-mortar and cement-concrete. The estimated cost of the plant is about Rs. 3,000. The plant needs periodical cleaning, say twice in one year. Further work to develop a suitable design of biogas plant based on water hyacinth is in progress at these institutions.

China has made remarkable progress in this field. The unique feature of the biogas plant is that the gas holder and the digestor are combined in one unit and size of the inlet and outlet openings is large. In the construction of these plants local materials are used. People along rivers use mainly pebbles, those in mountain areas use stones and people in the plains use bricks. A mixture of lime and earth in the proportion of 5:95 is used in the construction. For the standard capacity plant, the requirement of these materials are bricks (3,000 nos) lime (1,000 Kg.) and cement (100 kg.). The cost of construction is reported to be US $25 excluding labour charges.

Common combination of raw materials used in China are a mixture of 10 per cent human excreta, 30 per cent animal dung and 10 per cent vegetable meterial and 50 per cent water. Vegetable materials include acquatic plants, crop residues, green grass etc. which are decomposed for more than 10 days prior to their being put into the digestor.

It is estimated that the amount of water hyacinth that can be grown on 1 ha. of water surface can be converted to 70,000 cu. m. biogas, corresponding to 150 MWH/year, which is more than what rural electrification schemes offer. In addition, the sludge obtained from the fermented water hyacinth is rich in potassium. The annual sludge yield from a 2 cu.m. capacity plant could be about 5 tons/year. As there is great scope of culturing water hyacinth in India attempts should be made to standardise design of biogas plants suited to the need of the material and such plants may be set up on pilot basis to assess their economic feasibility.

There is great scope for using biogas as a source of energy in the rural areas. There is ample supply of cattle dung and other wastes which could be utilised together with water hyacinth to generate biogas for meeting the energy demand especially of the rural areas in India.

Prompt Payment of
TAXES

○ SAVES INTEREST AND PENALTY

○ AVOIDS TENSION AND ANXIETY

○ SYMBOLISES GOOD CITIZENSHIP

○ HELPS RESOURCE MOBILISATION FOR NATION BUILDING

There is a last date
for the payment of tax, but
WHY WAIT FOR THE LAST DAY
DELAY OFTEN LEADS
TO DEFAULT

PAY TAXES RIGHT
BUILD NATION'S MIGHT

Director of Inspection
(Research, Statistics, & Public Relations)
Income-Tax Department, New Delhi-110 001

davp 81/296

NABARD, The Apex Organisation to Finance Rural Development

By **J. D. Singh**

NABARD, the new abbreviation, stands for National Bank for Agriculture and Rural Development. A Bill to set it up has been approved by both Houses of parliament. As the title suggests, NABARD aims at promoting integrated rural development and ensuring prosperity in rural areas. It would be the apex organisation for policy, planning and operational aspects of credit for the promotion of agriculture, small-scale, cottage and village industries, handicrafts and other allied economic activities in rural areas.

With the establishment of NABARD, the Agricultural Refinance and Development Corporation would stand dissolved and its function vested in the new bank. According to the statement of objects and reasons, NABARD has its genesis in the recommendations of the National Commission on Agriculture. The Commission has suggested that to overcome difficulties being faced by farmers in obtaining credit and other inputs, an integrated approach should be adopted for the supply of services and inputs, including credit.

The Commission also recommended that all types of credit needs should be met through a single integrated agency leading up to an agricultural development bank at the apex. It suggested that such a bank could consolidate expertise and experience of various national level agencies into a single national organisation directing the flow of agricultural credit according to the needs. In March, 1979 the Government requested the Reserve Bank of India to arrange for a review of the institutional arrangements for rural credit with a view to streamlining them. The Reserve Bank in turn appointed a Committee to review the arrangements for institutional credit for agriculture and rural development. That Committee, in its interim report, recommended the setting up of a national bank for agriculture and rural development.

NABARD, when it comes into being, will serve as a refinancing institution for extending short-term credit for the promotion of activities in rural areas. Similarly, it will provide refinance to various banks for their term lending operations for the purposes of agriculture and rural development. A provision has also been made for direct lending to institutions approved by the Central Government.

NABARD will be co-owned by the Central Government and the Reserve Bank and it will have organic links with the Reserve Bank. It is desired that the Reserve Bank's close links with rural credit should be retained and its authority as the Central Bank over monetary and credit accretion should not be diluted in any manner. As co-owners, the Central Government and the Reserve Bank would contribute fifty crore rupees each to the capital of NABARD. The capital may be increased up to five hundred crore rupees, by the Centre in consultation with the Reserve Bank.

For the purpose of performing its functions, NABARD may issue and sell bonds and debentures carrying an interest and these will be guaranteed by the Central Government. NABARD may borrow money from the Reserve Bank, Central Government or from any other authority or institution aproved by the Government. It may accept deposits from the Central and State Governments, local authorities, state land development and co-operative banks or scheduled banks. It may receive gifts, grants, donations or benefections from the government or any other source.

NABARD may also borrow, with the approval of the Central Goverment and in consultation with the Reserve Bank, foreign currency from any bank or financial institution in India or abroad.

The credit functions of NABARD have been defined in an exhaustive manner. NABARD may provide by way of refinance, loans and advances, repayable on demand or on the expiry of fixed periods not exceeding 18 months, to state cooperative banks, regional rural banks or to any financial institution approved by the Reserve Bank. These would be used for financing :

a) agricultural operations or marketing of crops,

b) marketing and distribution of inputs necessary for agriculture or rural development,

c) any other activity for the promotion of or in the field of agriculture or rural development,

d) bona fide commercial or trade transactions, and

e) production or marketing activities of artisans or small-scale industries, village and cottage industries or others engaged in handicrafts and other rural crafts.

NABARD may make loans and advances against the security of stocks, funds and securities other than immovable property or promissory notes supported by documents of title to goods. Criticism of NABARD was expressed in Parliament on three scrores. Some CPM Members from West Bengal saw in the establishment of the new bank an attempt by the Centre to diminish the power and control of the State Governments. They said that agriculture was a state subject and in the name of integrated rural development, the Centre wanted to take away the powers of the State Governments.

However, the Finance Minister dismissed the fears expressed by members as baseless and unfounded. NABARD, he said did not imply any erosion of the powers of the State Governments or cooperatives. He pointed out that it would ensure greater coverage of weaker sections by banks. It would not give direct loans to individuals but would generally

Liu in USJEC (1967) at 3.2 per cent per annum for the period 1952-65. For this very period, Ashbrook's estimate in U S J E C (1972) was at 3.9 per cent per annum. For 1952-65, the U.S.J.E.C (1975) revised the estimate upwards at 5.5 per cent and Rawski's estimate in U.S J.E.C. (1972) for 1952-71 at 4.2 per cent was also revised upwards at 5.7 per cent. For 1952-74, U S J E C (1975) gives an estimate of 5.6 per cent. All the later estimates consider the Chinese growth rate to be around above 5 per cent with the only exception of Swamy. Clearly, this is much faster than the Indian growth rate of around 3.5 per cent per annum. China has been able to reduce her growth rate of population to 1.2 in 1979 as against India's figure of above 2 per cent. This implies that the gap in performance in terms of *per capita* income is wider than would appear from a comparison of the growth rate of G.N.P.

While the growth rate of agricultural production in China around 2.3 - 2.4 per cent is almost similar to the Indian rate, the contrast in performance is most marked in the field of industrial development. For 1952-74, its, rate of 10.5 per cent is more than double the Indian figure for comparable period.

One reason for the faster Chinese rate is that it started with a lower less in terms of *per capita* income and output of industrial goods. But the main reason is to be found in its success in saving and investing a larger share of its resources than India. Investment as a share of G D P in China in 1979, according to World Bank, stood at 27 per cent as compared to 24 per cent in India's case. Its succes in reducing the rate of population growth to 1.2 per cent, the efficiency of its political system in reducing inequalities and checking corruption have been another contributory factors. Thus the superiority of the Chinese economic model over its Indian counterpart has become an established fact.

REFERENCES

1. Malenbaum "India and China: Contrast in Development Performance", *American Economic Review*, June 1959.

2. Raj, K. N, India, Pakistan and China: Economic Growth and Outlook; Allied Publishers, Bombay, 1967.

3. Sahay, Ramji, "Aspects of planned Economic Development in India and China: A Comparative Study" Ph. D thesis submitted to Bhagalpur University in March 1974. See also my paper "India and China: Contrast in Economic Development", *Indian Economic Journal*, Conference Number, 1979.

4. These are the three publications on Chinese Economy by the U. S. Joint Economic Committee in 1967, 1972 & 1975.

5. As reported in *Times of India* Bombay, August 26 & 27, 1981 by Dilip Mukherjee.

With Best Compliments from:

KHANDELWAL FERRO ALLOYS LIMITED

KHANDELWAL NAGAR

Manufacturers of

FERROMANGANESE

* * *

KHANDELWAL TUBES

KHANDELWAL NAGAR

Makers of

INDIA'S FINEST STEEL TUBES

* * *

Works:
P. O. Khandelwal Nagar,
Dist. NAGPUR-441 302.

Principal Office:
'Nirmal'
Nariman Point,
BOMBAY-400 021.

A Micro Study on Marketable Surplus

EVER since the state assumed the role of purchasing foodgrains from the market and provide the same through the public distribution system, the issue of marketable surplus and market dependence of farmers has become quite an important exercise for researchers and the knowledgeable. This study brings forth some revealing features which are at once refreshing and instructive. The author has undertaken this work in a highly scientific manner with the help of economic data and analytical tools. This micro level study is based on farm management data from Ahmednagar district—a millet dominated region—where wheat is considered as a cash crop. How different classes of farmers participate in the process of commercialisation in the commodity sphere is explored within the limitations of data available.

In his foreword to the book, Dr. V.K.R.V. Rao writes that the positive nature of the percentage of net marketed surplus to net available output in the case of wheat is a clear indication of the fact that in this millet region wheat is treated as a cash crop even by the smallest size class of agricultural holdings. The author's analysis brings forth the finding that whereas farmers with up to 4 — at times even 6 — hectares had negative marketable surplus in jowar and bajra, they had positive surplus in wheat. But there was no evidence of a negative response of marketable surplus to output in any crop even among small farmers. Small farmers too were found to be market-oriented, selling one foodgrain and buying another for consumption.

Another revealing feature is the concentration of marketable surplus in the hands of big farmers and that too in products like jowar and bajra for which market dependence of even small farmers, let alone rural labour, is quite high. The author suggests that in view of the situation, our public distribution system should provide these items to the poor by procuring from big farmers on the basis of progressive procurement quotas. "Thus only a simultaneous operation of both procurement and public distribution in the rural areas would make the system meaningful to the people there". It is also true that public distribution and procurement can only be palliatives and may not be able to resolve the crisis caused by the growing market dependence which is not backed by purchasing power. Even if foodgrains are offered at lower than the market prices, the offer would not make much sense to the people who have no means to purchase it.

The present study concerns itself with data pertaining to three years from 1969-70 to 1971-72 based on sample data. The marketable surplus of wheat was found to be relatively concentrated among the large size classes on account of their greater share in area and output. The first chapter of the book on 'review of literature on marketable surplus' is quite exhaustive and meaningful. The author righty points out that the question of marketable surplus has to be analysed in the wider perspective of the quality and the magnitude of commercialisation and development of the home market in its various dimensions.

— **Navin Chandra Joshi**

MARKETABLE SURPLUS AND MARKET DEPENDENCE IN A MILLET REGION By M.V. Nadkarni, Allied Publishers, 13/14, Asaf Ali Road, New Delhi 110 002. Pages 176, Rs. 60.00

Commerce Year Book

The *Commerce* Year Book of Public Sector (*Commerce* Publications Limited, Manek Mahal, 90, Veer Nariman Road, Bombay-400 020) has become an indispensable guide to every one who follows the developments pertaining to state-owned undertakings. The latest edition (1980-81) maintains the standard usually associated with *Commerce* publications. Edited by Mr. Vadilal Dagli, the Year Book, priced Rs. 125, starts with an introductory chapter highlighting the role of public sector in the Indian economy. This chapter covers such macro aspects as the public sector's share in employment, in net domestic product and in saving and also its contribution to the plan investment. The next section gives details about the public sector's share in individual industries. A cursory glance at this table reveals that the public sector enjoys a dominant position in a large segment of the industrial sector. Actually, it accounts for 100 per cent share in quite a number of industries.

The section dealing with statewise profiles of the public sector is quite informative. Particulars about leading public sector undertakings are given in the last section. All in all, one can unhesitatingly commend the Year Book to the managers of public as well as private sector companies. In fact, it is the latter who should benefit most from having this handy volume on their desk.

Subscribe to :
SOUTHERN ECONOMIST
106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign :* 15 Dollars)
surface mail

kar valves
K|V
valves
the right valve to fit

maa KV 2 A 80

NINETEENTH
INDIAN STANDARDS CONVENTION
Madras 17-22 January 1982

Indian Standards Conventions in Retrospect

By **A. K. Gupta** *

INDIA has built up a viable industrial and technological infrastructure over the years through sustained efforts. As a result, there is a wholesome transformation in the country's landscape which is now dotted with thousands of manufacturing units of all sizes and description. While entrepreneurship played an important part in this development, other factors, such as efficient management of resources, reduction of waste in manufacture and distribution of various items, production of quality goods on economic levels, control of inventories, substitution of imports and technical improvization made their contribution in no small measure. Standardization is an essential element in all such efforts as modern industrial standards are instruments of administrative and technical guidance for effecting simplification, rationalization and variety reduction. Standardization helps build quality into a product right from the raw materials stage through processing to final handling and transportation.

Thanks to the far-sightedness of our leaders, the importance of a system of national standards in the creation of a dynamic industrial society out of limited resources was realized even before India's Independence. Thus, before the process of industrialization actually took roots the Indian Standards Institution (ISI), set up in early 1947, was able to initiate the necessary spade work required for the foundation of a strong industrial base. ISI can now look back with legitimate pride on the enduring contribution it has made to the national effort to strengthen the economy and mobilize resources on a systematic pattern. As the wheels of industry started turning one after the other, ISI had to expand its facilities in a planned manner to keep pace with the ever-growing demand on its services for the supply of standards and specifications wholly oriented to the country's available materials and manufacturing capability. Today ISI has a network of 13 regional and branch offices at metropolitan and other industrial centres all over the country besides the headquarters at New Delhi.

As important as the formulation of standards is their implementation and this can be achieved only if the concept of standardization has permeated each and every productive effort. The Institution has been promoting the idea of standardization over the years through mass media, seminars and symposia, lectures and exhibitions. ISI has also been organizing Standards Conventions periodically in different parts of the country since 1954 to arouse standards-consciousness and to take stock of the latest trends of development within and outside the country in different technical fields and their impact on standardization programmes. They have acquired added importance as a forum for detailed consideration as to how the techniques of standardization, variety rationalization and quality improvement can be applied effectively for resolving intricate problems encountered during the rapid growth of industry and technology. So far, 18 Indian Standards Conventions have been held—three in the western region, four in the eastern region and five each in the north and south besides one in Madhya Pradesh. City-wise, Bombay, Calcutta and New Delhi have hosted two conventions each while Ahmadabad, Bangalore, Bhopal, Bhubaneswar, Chandigarh, Coimbatore, Ernakulam, Hyderabad, Jaipur, Kanpur, Madras and Patna have been the venue for one convention each.

CONTENTS

Indian Standards Conventions in Retrospect — *By A. K. Gupta* 27

Compulsory ISI Mark for Consumer Protection — *By A. P. Banerji* 28

International Standards and Development of Trade and Export — *By S. Srinivasan* 29

Standards for Automotive Industry — *By B. L. Raina and S. M. Bhatia* 30

Standardization in Handloom Industry — *By S. M. Chakraborty* 31

Quality Grading in Indian Standards — Relevant Issues — *By S. R. Kuppanna* 32

---

* Dr. Gupta is Director General, Indian Standards Institution.

The Nineteenth Indian Standards Convention is being held in Madras during 17-22 January 1982 under the leadership of Rao Birendra Singh, Union Minister of Agriculture, Irrigation, Rural Reconstruction and Civil Supplies. The city of Madras is playing host to the Indian Standards Convention for the second time, the previous Convention having been held here in 1957. Among the subjects slated for discussions at five technical sessions are role of international standards in the development of national industry, problems and prospects in relation to mandatory standards for consumer protection, quality grading in Indian Standards, standardization for development of automotive industry, and quality control and standardization in handloom industry.

A fresh look into standards is becoming due in the context of the drive for promotion of exports, the main objective being the desirability of remaining in step with the contemporary developments as reflected in the standards overseas, specially those issued by the International Organization for Standardization (ISO) and International Electrotechnical Commission (IEC). At home, there is increasing clamour for making enforcement of standards compulsory in certain areas, especially those affecting health and safety. This is a subject which calls for an in-depth discussion among experts. A good deal of thinking has of late been going on in regard to specification of different quality grades of products in standards to accommodate the large-scale manufacturer who feels that the optimum quality prescribed in the standards is inadequate for his purpose, the small entrepreneur who complains that it is higher than the level of quality he can achieve and the average consumer who is satisfied with cheap products of marginal quality. Handlooms and automobiles are the two important industries of the region in which the role of standardization calls for a careful consideration. The deliberations of the Convention are expected to give a big boost to standardization activity in Tamil Nadu and adjoining areas.

Compulsory I S I Mark for Consumer Protection

By **A. P. Banerji**

Additional Director General Indian Standards Institution

A NUMBER of certification schemes are being operated in the country at present. Among them, ISI Certification Marks Scheme is perhaps the only scheme which covers a wide range of products. This scheme which is operated under ISI Certification Marks Act, 1952, is voluntary in nature. However, other government authorities have made use of ISI Mark compulsory through other enactments like *Essential Commodities Act*, *Prevention of Food Adulteration Act*, *Mines Act*, *Indian Gas Cylinder Rules*, etc.,

ISI Certification Marks Scheme is operated under the *ISI Certification Marks Act, 195'*, which empowers ISI to grant licences to manufacturers who wish to use the ISI Mark on their product as an indication of its conformity to the relevant Indian Standard. The very methodology used for formulation of Indian Standards, namely, the establishment of consensus among the various interests, ensures the acceptance of the standards so formulated by manufacturers and consumers. These standards form technical basis for procurement by various organized purchasers in both private and public sectors.

While organized purchasers may have the means to determine conformity of the product purchased by them to Indian Standards, the common consumer is required to depend upon the assurance of the manufacturers through publicity or sales promotion for such conformity. ISI Certification Marks Scheme has been introduced with a view to providing consumers such assurance of conformity to Indian Standards by a third party, namely ISI. The Scheme also provides advantaages to manufacturers in terms of better sales, better acceptance of product by consumer and a technical audit of the quality of products manufactured by him by a third party, namely, ISI. Under the ISI Certification Marks Scheme, about 6,000 licences are at present operative for over 1,000 products. Nearly 20 per cent of the products covered fall under the category of consumer products.

Though ISI Certification Marks Scheme is voluntary in nature, several other statutory authorities have made use of ISI Mark, for granting approval of the products by them. Some of items falling under this category are:

Product	*Provisions under which ISI Mark made obligatory*
LPG Cylinders	Indian Gas Cylinder Rules, 1940
Safety helmets for use in mines.	Mines Act, 1952
Miners' safety leather boots and shoes.	
Flameproof electrical equipment.	
Wire ropes used in mines	
Food colours and food colour preparations.	Prevention of food adulteration (amendment) Rules, 1974
Titanium dioxide food grade.	
White printing paper.	Essential commodities Act. 1955.
Mild steel tubes.	

Besides making use of ISI Mark compulsory, there are cases where the government has made conformity to Indian Standards compulsory through various notifications, such as *Cement Control Order or Domestic Electrical Appliances Control Order*. The enforcement of such orders is the responsibility of the authorities indicated in such orders and not ISI.

While ISI Mark has proved its usefulness to manufacturers and consumers as is evident from its growth in recent years, it has yet to make a real impact in terms of providing consumer protection. This is perhaps due to the prevailing sellers' market in consumer goods. However, it is necessary to consider the problem from the point of view of protecting consumers from hazards inherent in use of substandard products. A number of such cases are regularly reported in the press or publicised by consumer organizations. It is heartening to note that several statutory authorities are aware of this problem and are thinking in terms of making ISI Mark compulsory for products falling within their purview. The decisions by these authorities may solve the problem to some extent. But to tackle the problem in its wider perspective it may be necessary to consider legal provisions essential for making operation of schemes for compulsory use of ISI Mark workable and capable of providing the desired protection to consumers.

ISI Certification Marks Act, being voluntary in nature, any action for making use of ISI Mark compulsory has, at present to be taken under some other statute. The responsibility for the proper enforcement of such notifications under other statutes remains with the authorities constituted under the Act. For example, state departments of civil supplies are responsible for enforcement of *Essential Commodities Act* or Chief Controller of Explosives under *Explosive Act*. On the other hand, the responsibility for proper operation of ISI Certification Marks Scheme remains with ISI. At present, there is no provision in the *ISI Certification Marks Act* to enable the Central Government to make ISI Mark compulsory for any product.

For this purpose, recourse has to be taken to other statutes. It is possible that a particular product may not fall strictly within the purview of the statute under which use of compulsory ISI mark for it is being considered. On account of this, compulsion for obtaing ISI Mark has to come through indirect means, such as through directives issued by Tariff Advisory committee or Steel Controller. Such directives do not always succeed in achieving the desired end.

Therefore, there is need to amend the ISI (certification marks) Act to provide for the following:

a) To empower Central Government to notify under the Act that ISI Mark shall be compulsory for a product.

b) To give powers of search and seizures to ISI inspectors in the same manner as are given to customs or excise inspectors.

c) To enhance the punishment for contravention of ISI Certification Marks Act to Rs. 50,000.00 and also provide for rigorous imprisonment.

Such an amendment of *ISI(Certification Marks) Act* will go a long way in dealing with manufacturers or dealers misusing ISI Mark.

International Standards & Development of Trade and Export

By **S. Srinivasan**

Deputy Director General Indian Standards Institution

STANDARDIZATION being an essential condition for planned industrial development, the basic objective of national standards is to guide the development of the indigenous industry. On the other hand, international standards serve as instruments for facilitating international exchange of goods and services, besides representing the state of technology on a global basis and also acting as a unifying basis for practices followed in different countries. Therefore, the extent to which international standards can be adopted for regulating the development of national industry is a moot point which requires careful evaluation.

The development of international standards follows the same general principles and procedures as for national standards. The International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) are the principal agencies for international standardization which have been engaged in the development of international standards through skillful synthesis of national viewpoints to promote industrial development and prosperity on a global basis. Hence, each international standard represents worldwide consensus in respect of technical capability and needs. The objects of the two organizations as stated in their respective constitutions are :

ISO : 'The objects of the Organization shall be to promote the development of standards in the world with a view to facilitating international exchange of goods and services and to developing co-operation in the sphere of intellectual, scientific, technological and economic activity'.

IEC : 'The object of the Commission is to promote international co-operation on all questions of standardization and related matters in the fields of electrical and electronics engineering and thus to promote international understanding'. The object *inter alia* is achieved by issuing publications including recommendations in the form of international standards, which the National Committees are expected to use for their work on national standards, in so far as national conditions will permit. Some of the direct benefits that can accrue from international standardization for promotion of national trade and export are :

i) Availability of large amount of technical information and data with international acceptance in the form of ISO and IEC Standards for methods of test, sampling procedures, terminology,etc. As a matter of fact, if a country's participation in work of the particular ISO/TC is sustained and effective, many of the ISO standards in this area can be directly adopted as national standards, and to that extent, the effort, time and money spent on the rather long drawn process of preparation of national standards can be saved.

ii) Availability of information from industrially developed countries in the form of end result of technological skills and processes, which can be utilized by indigenous industries for improving their own capability and performance (for example, international product specifications, codes of practice, etc)

iii) Availability of a forum for securing acceptance of indigenous skills and technologies and thus improving the standing of indigenous goods and services in world trade.

iv) Getting aligned with other countries in areas where unification all over the world is essential for international trade, communication exchange, etc (for example, quantities, units and symbols; pallets for unit load method of meterials handling; safety colours and signs; sizing system, designation and marking for boots shoes; etc).

v) Getting solutions to many technological problems in the area of commercial contracts, export, import, etc.

vi) Availbility of a forum for cross-pollination of ideas which are bound to spark technology and help prevent stagnation and inbreeding.

For this reason, ISI has taken an active interest in ISO and IEC from their very inception. It participates in 115 out of 163 technical committees of ISO and holds the secretariat of five ISO technical committees, 14 sub-committees and 6 Working Groups responsible for the formulation of standards in the fields of lac, mica, leather, cycles, measurement of liquid flow in open channels, steel, spices and condiments, shipbuilding, textiles and rubber products.

ISI is a member of ISO Council besides being an active participating member of the Development Committee (DEVCO), Committee on Certification (CERTICO), Committee on Consumer Policy (COPOLCO) and Committee on Information (INFCO). The Director General, ISI is the ISO Regional liaison Officer for the South Asia - Iran Region. ISI also actively participates in the activities of IEC. A significant aspect of participation is putting forward problems specially connected with usage of electrical and electronic equipment in tropical and sub-tropical countries. India has perhaps, been the only representative of this region which has put forward proposals relating to tropical and sub-tropical environments for consideration at this level.

So far as India is concerned the complement of exports in its gross national product presently comes to less than seven per cent. Does this constitute a special enough factor in itself for the country for determining the scale of its participation in the international standardization activity ? On the other hand, export expansion has come to stay as an integral part of our developmental plans. Highest priority has been accorded to the augumentation of export trade for financing the import of capital equipment urgently needed for the development of industry as well as agriculture. Standardization plays an important part in the production of goods of the required level of quality acceptable in the world market.

It is a well recognized fact that the success of any export effort depends upon providing satisfaction to the foreign buyer and upon the capacity to meet his specific requirements in respect of quality and price. Modern markets being highly sophisticated and competitive, the success in export promotion is directly related to the production of standardized, streamlined and quality goods and the ability to innovate and improve constantly to meet the challenges thrown up by the changing technology and tastes. International standardization is the only weapon to meet these multiple challenges effectively.

Standards for Automotive Industry

By **B. L. Raina** *and* **S. M. Bhatia**

THE Indian automotive industry has established itself effectively as an organized enterprise to produce a large variety of products ranging from mopeds to commercial and public service vehicles. It is a matter of satisfaction that alongside the large scale manufacturers, automotive ancillary units have also come up to produce a variety of spares and components to the satisfaction of the vehicle manufacturers. The total number of vehicles manufactured during 1980 is around 5,76,000 and the total estimated number of vehicles including mopeds, scooters, motorcycles and multi-axle vehicles likely to be manufactured during 1981 is estimated to be 7,20,000.

At the time of independence no automobile was manufactured in the country and subsequently assembly plants were established to assemble some of the vehicles for our use in collaboration with British and Italian manufacturers. The industry made some progress with the development of improved designs within the country and also production of some of the components locally as the time progressed. Collaborations were also established for the manufacture of scooters and commercial vehicles with the help of Italian, British and German vehicle manufacturers. This in itself was a step towards larger development of the automobile industry.

To cater to the needs of the automobile manufacturers in which hundreds of components are assembled to make a complete vehicle, the need for development of ancillary also grew. The ancillary industries manufacturing various components ranging from pistons, piston rings, retaining rings to tyre, tubes, rims, etc, grew around the vehicle manufacturing complexes. In the development of these ancillaries, the vehicle manufacturers played a major role by providing them their specifications against which the components were bought and also suggesting ways and means for improving the quality so that the overall quality of the vehicles was maintained at acceptable levels.

The Nineteenth Indian Standards Convention is being organized at Madras from 17 to 22 January 1982 and one of the Technical Sessions deals with 'Standardization for Development of Automotive Industry'. This session has been organized as there is a large concentration of automobile and ancillary manufacturers in the Southern Region. Furthermore, the Indian automotive industry has come of age and is gearing itself to meet the transportation needs of the day. As is quite evident, massive investments are being made in this industry to upgrade the technology and to produce the right kind of vehicles both for defence and civilian use. To sustain the tempo of growth and development of the industry in the coming years it is imperative that techniques of standardization and quality control are applied during production of automobiles, their components and ancillaries and subsequent maintenance of vehicles. There is added importance of standardization in the context of the need to effect economy in fuel consumption, maintain purity of environment and make judicious use of scarce raw-materials.

As an important aspect, there is the need to adopt common designs for as many of bought-out components as possible. This will help consolidate their demand thus bringing in advantages of the economy of scale and mass production during their manufacture and ready availability of replacement components to the consumers. The Technical Session (S-4) will review in detail the contribution which standardization can make for stimulating the growth and development of the automotive industry. The detailed themes which are being covered in the deliberations of the session are:

1. Indian Standards as an aid to the development of automotive ancillary industry.
2. Standardization of prime movers and their components.
3. Standardization of material alternatives for automotive industry.
4. Energy conservation through standardization.
5. Implementation of Indian Standards by automotive industry - Problems and possible solutions.

With the establishment of the automotive industry, the need also grew for making available adequate number of standards for the use of the producers. Therefore, as early as 1952, ISI set up the Internal Combustion Engine Sectional Committee under the Mechanical Engineering Division Council to deal with the standardization of prime movers and their components for automobiles. This was followed by a fullfledged Automotive Vehicle Sectional Committee and similar Committee was created under the Electrotechnical Division Council to deal with the electrical systems. The materials for automobiles were covered by Structural and Metals Division Council. In all, more than 200 Indian Standards of exclusive use by the automobile industry have been published and another 200 standards are under process.

It is important that the Indian Standards published for automotive industry are implemented both by the consumer as well as the manufacturer in their procurement / manufacturing activities. The benefits of standardization cannot be derived unless the full adoption of Indian Standards is resorted to by all interests concerned. This will promote interchangeability, cost reduction, import substitution, safety, ease in manufacture. To safeguard the interest of the common consumer, ISI also provides the ISI Certification Marking service to the industry as third party guarantee. The automobile components covered by the ISI Certification Marking Scheme are pistons, piston rings, cylinder liners, engine valves, hydraulic and mechanical jacks, fuel filters, engines, shock absorbers, spark plugs, bulbs, hoses, suspension springs and ignition coils. It is hoped that more producers will be coming forward on their own to get their products covered under the ISI Certification Marks Scheme.

Standardization in Handloom Industry

By **S. M. Chakraborty**

IN the mid-eighteenth century the village communities in the country formed the base of social structure consisting of mainly three classes of people-cultivators, artisans and their dependants. Spinning yarn and weaving cloth became a secondary activity in many families in the village communities. The textiles produced by them were of high quality and products like Dacca muslins, silk embroideries and brocades, Kashmir shawls, etc, bore testimony to their skill.

In the nineteenth century the traditional skill to produce high quality textiles gradually disappeared due to oppression of artisans, prohibitory duties, decrees and the British capital investment in India in establishing textile mills as complementary to British industries.

After Independence the more organised sector, namely, the textile mills, has improved its performance in the production both qualitatively and quantitatively, with the help of new machinery and improved technical know-how besides the systematic R&D services in producing new products. The widely dispersed handloom industry, in spite of many shortcomings like absence of technically qualified persons, R&D, etc. too has made progress so much so that it accounts for about 25 per cent of total textiles produced in India. In the export market also, the demand for handloom textiles is gradually increasing.

The Government of India, in a bid to encourage the export, sales and employment in the rural sector, had reserved some textile items to be produced by handloom weavers only. Thus weavers' societies at district level came into existence in many States. Thereafter, cooperative societies and apex bodies sprang up to help the weavers in getting the raw material and other inputs and to explore the marketability of the handloom products.

Such organised set-ups are likely to accelerate the growth of handloom industry in a more rational way in the near future and enhance the export-worthiness of their products which till, now were accepted by the importers because of their novelty, design variegation and changing fashions. A consumer, whether in India or abroad, while buying handloom textiles, would like to be assured mainly of dimensional stability and colour fastness. Repeat buying by a consumer is the index of his satisfaction for the products. Handloom industry would surely not allow similar repetition of fake Madras 'checks' to bring bad name to the export. Rigid inspection of lot prior to export might check, to a great extent, recurrence of such incidence but a voluntary in-process quality control way would help to establish quality product faster and deep rooted.

Through the technical committees of ISI, both manufacturers and consumers have agreed and developed large number of standards on various types of handloom products. In view of the decentralised set up and other handicaps faced by handloom industry, many of these Indian Standards remained unimplemented. In the recent years, the cooperative bodies in the handloom sector in the South have taken ISI mark for bed sheets and dhoties. They are showing keen interest to revise many standards on handloom products to align them with trade practices and introduce quality control technique by adoption of such standards.

The technical session 'Handloom Industry — Quality Control and Standardization' in the forthcoming Nineteenth Indian Standards Convention at Madras would give a common platform to discuss problems with the object of encouraging the adoption of Indian Standards.

Quality Grading in Indian Standards: Relevant Issues

By **S. R. Kuppanna**

Director, Indian Standards Institution

ONE of the main objectives of standardization is to promote effective understanding between manufacturers and consumers of products. As a means to achieve this, quality requirements are stipulated in product standards. In doing so, several questions are given possible considerations including the following:

a) What is the process capability of manufacturers in small, medium and large scale sectors (assessed from adequate data on test results).

b) What are the quality requirements of bulk consumers having differing end-uses for the same product.

c) What is the quality level at which products can be made available to consumers at a reasonable price.

But these are complex issues and ideal solutions could be found after a long time when results of extensive laboratory testing or of market surveys are available. Since formulation of standards cannot be held up for such a long time, decisions on the above issues are taken on the basis of information readily available (although to a limited extent) subject to detailed discussions and exchange of views in expert committee meetings. The quality levels so standardized are generally termed as 'Optimum Quality' level representing a meaningful compromise between quality desired by the consumers and the quality attainable by a majority of manufacturers.

A critical review of past experience in formulating and implementing Indian Standards with optimum quality stipulations appear to give the impression that this has been useful to a limited extent. This is so because a section of the Indian industry, which has either established its brand name in the country over the years or has access to the latest technology due to comfortable resources position claims that the quality of their products is much superior to the optimum quality stipulated in the Indian Standard. On the other hand, there are instances in which optimum quality stipulated in the standards is interpreted as either inadequate or over stringent.

Further, some small scale units feel, due to real or imaginary reasons, that the optimum quality stipulated in some of the Indian Standards is much higher than what they can achieve. There is also a strong opinion that cheaper products of marginal quality but having substantial demand in the market should not be kept out of the purview of standardization. In this context, the standards engineers are deliberating whether it is desirable to progressively introduce quality grading in Indian Standards so that these standards are helpful not only in identifying products of optimum quality but also those of superior quality and/or of marginal quality.

The basic idea behind the suggested new approach is to do an ABC analysis of the quality of products available in Indian market (such analysis is commonly done by the industries for inventory control purposes) and providing for corresponding quality grading in selected Indian Standards so that such standards are found meaningful for all sections of Indian industry, trade and consumers. The possible advantages of this new approach and its feasibility in practice would have to be looked into in detail.

New Policy for Licencing Bank Branches

THE Reserve Bank has formulated a new commercial banks branch licensing policy for the three years 1982-83, 1983-84 and 1984-85 (to co-terminate with the sixth five-year plan). The policy has been drawn up in the light of the progress made so far and keeping in view the growth of population and economic activities and other developments that have taken place since the current branch licensing policy for the period 1979-81 came into force in January 1979 which now stands extended by three months, that is, up to the end of March 1982. Although progress has been made in reducing the inter-regional disparities in the spread of banking facilities, there is still considerable ground to be covered as some districts continue to be deficit. Also, in the context of the growth of population in rural areas since 1971 and extension of Integrated Rural Development Programme to all blocks in the country, it is considered necessary to ensure that bank branches are well spread out in rural areas and that no pockets of un-banked areas are left even in districts which may be relatively well-banked on an aggregate population basis. The broad outlines of the new branch licensing policy are indicated below :

In Rural Areas

The main thrust of the policy will continue to be on improving banking facilities in rural areas with greater emphasis on ensuring proper spatial distribution of branches to provide comprehensive coverage for all rural areas. It is aimed to achieve a coverage of one bank office on an average for a population of 17,000 in the rural and semi-urban areas on the basis of 1981 census, by the end of March 1985.

While accent will be on branch expansion in the rural areas of the districts identified as underbanked in relation to the population coverage of 17,000 per bank office, provision for expansion in other districts will also be made to a limited extent keeping in view growth in economic activity, need for banking facilities in the area, spatial gap in the availability of banking facilities in the area and other special features, if any, warranting establishment of additional bank offices. This will, however, be given a lower priority and such branches will be allowed only in the latter part of the licensing period. Hilly regions, regions which are sparsely populated and tribal areas will be given special consideration and expansion in such areas will be allowed on a comparatively liberal basis taking into account the existing gaps in the availability of banking facilities, the need for meeting the banking requirements of identified groups, growth in economic activities, etc.

The centres for locating new offices will be identified block-wise within each district. As hitherto, the State Governments will be consulted in the matter of identification of unbanked centres in rural areas for location of bank offices. In order to ensure general consensus to the extent possible on the suitability of centres for branch establishment, the District Consultative Committees of the concerned districts will be involved in the process of identification.

Growth Centres

The State Governments will identify, in consultation with the District Consultative Committees, only unbanked rural centres where there is need for the establishment of bank branches. The following factors will be kept in view by them while identifying the centres:

Potential and/or need for banking facilities at the centre, spatial gaps in the availability of banking facilities in the area (including the co-operatives) i. e., places which do not have access to the banking facilities.

Population of the centre and adjoining areas which the proposed offices are intended to serve.

Availability of infrastructural facilities such as transport, communication, post offices, police stations, etc.

Special features, if any, of the region deserving special consideration.

Organisational strength of the co-operative credit structure in the area and its capacity to meet the credit needs of the area.

Deficit Districts

Keeping in view the specific banking requirements of the area, the State Government may identify the type of bank office required at the place—that is whether that of commercial bank or regional rural bank (where established or proposed to be established) or the branch of a co-operative bank—and forward to the Reserve Bank the lists of identified centres in the order of priority depending upon the urgency of the needs of the area, availability of infrastructural facilities/likelihood of these facilities being made available in the near future, etc. Priority will be given for centres in the deficit districts, while expansion in surplus districts will be phased out to 1984-85 unless there is an immediate need for establishing a bank office at a particular centre.

The centres identified for locating additional bank offices will be primarily allocated to RRBs in the districts covered or proposed to be covered by them. However, in districts where the RRBs have been proposed but are yet to be established, the sponsor-banks will be permitted to a limited extent to open branches in the centrally located centres from where they can operate satellite or mobile offices to cover the rural areas beyond their normal jurisdiction till such period RRBs are organised in these districts. In the districts which are not or not proposed to be covered by RRBs priority will be given to banks having a fair network of branches in the region as also those having regional character.

Kotharis to Issue Convertible Debentures

DURING the year-ended June 30, 1981, Kothari (Madras) Limited has recorded a turnover of Rs. 52 crores, against Rs. 44 crores in the previous year. This improvement is reflected in the after-tax profit which rose from Rs. 3.67 crores to Rs. 4.30 crores. The company's equity dividend has been stepped up from 20 per cent to 22 per sent. The amount distributed by way of dividends has gone up from Rs. 96 lakhs to Rs. 105 lakhs (figures rounded). Earnings per equity share work out to Rs. 2.20 against Rs. 2 in the previous year.

Division-wise, the profitability of the textile division was reduced by power cuts, higher prices for fibres and the higher power tariff in Andhra Pradesh. Since cotton prices, are going down, the outlook should improve in 1981-82. In the plantation division, the company faced a difficult situation owing to the fall in tea prices. However, the position is expected to improve with the revival in tea prices. The company's fertiliser production increased by 15 per cent and the chemicals division registered an increase of 18 per cent. The management proposes to double the capacity with an investment of Rs. 23.11 crores. In 1981-82, the company expects to increase its turnover by 8 per cent to Rs. 57 crores.

The company will be shortly entering the market with a 10-crore convertible debentures issue. The debentures will carry an interest of 13.5 per cent. This is intended to partly finance the Rs. 20.40-crore programme of the company for increasing the capacity of its chemicals plants, namely, caustic soda, liquid chlorine and hydrochloric acid.

14 Per cent Rise in L & T's Sales

THE working results of Larsen & Toubro Limited for the six-month period ended September 30, 1981 (the accounting period of the company has been changed to September-end for administrative reasons) reveal a rise of 14 per cent in sales, 31 per cent in pre-tax profit and 44 per cent in earnings per share.

The company has received the sanction from the controller of capital issues for issue of bonus shares in the ratio of 3:5. These shares will be alloted by end-February 1982 and will qualify for full dividend. The Directors have decided to recommend a dividend at 9 per cent. On the basis of a full 12-month period, the cum-bonus dividend would amount to 28.8 per cent as against 20 per cent paid for the previous year. The construction of the cement plant is progressing satisfactorily and barring unforseen circumstances, it is expected to be commissioned next year. Two ships of 27,000 DWT capacity built in 1981 are expected to be delivered by March 1982. The order backlog, as at the end of 1981, stood at Rs. 175 crores.

Kar Valves Earn Less on Higher Turnover

ALTHOUGH the turnover of Kar Valves Limited for the year ended September 30 1981 showed, at Rs. 3.83 crores, a rise of about 27 per cent, the profit has come down from Rs. 91.62 lakhs to Rs. 88.39 lakhs. Lower profitability is explained by increased cost of raw materials and other inputs. With the implementation of the expansion scheme fully, the company expects to improve its performance in 1981-82. At Rs. 29.83 lakhs, the company's export sales show a growth of 46 per cent.

The company's application for setting up a second valve manufacturing plant (1.5 million valves per annum) at Alwar, Rajasthan has been cleared by DGTD. The company expects to commence commercial production in this plant early next year. With the expected increase in the production of vehicles in the country, the company's products are assured of good demand. The company has proposed an equity dividend of Rs. 1.50 per share.

Reliance Textiles Sets New Records

RELIANCE Textile Industries Limited established new records in turnover and profit in 1981, despite recessionary conditions in the textile market. The company's turnover for the year shot up to over Rs. 300 crores from about Rs. 208 crores in the previous year, showing a rise of 44 per cent. Likewise, the company's estimated gross profit jumped by about 66 per cent to over Rs. 30 crores from Rs. 18.09 crores in the previous year. The company does not expect any tax liability for 1981 as well as for the next few years. The outstanding performance of the company has been due to its aggressive marketing policy, installation of sophisticated machinery in various divisions and the full impact of the establishment of its worsted spinning plant.

Meanwhile, the implementation of the Rs. 80-crore Polyster Filament Yarn Project, in collaboration with the well known U S firm duPont, is proceeding ahead of schedule and it is expected to be commissioned in the third quarter of the current year. Implementation of this project will improve substantially the company's profitability. The company has chalked out an expansion and modernisation programme for its plants at Naroda and Sidhpur, involving an outlay of Rs. 73 crores during the current year. In order to finance this programme, the company proposes to come out soon with a Convertible Debenture Issue for an aggregate amount of Rs. 50 crores.

Voltas Limited Steps Up Equity Dividend

FOR the year ended August 31, 1981, Voltas Limited has declared an equity dividend of 20 per cent, against 18 per cent in the previous year. This is equivalent to 25 per cent on the share capital prior to the bonus issue. This is rendered possible by the higher profit (before depreciation and taxation) of Rs. 9.87 crores earned in 1980-81, against Rs. 5.18 crores in 1979-80. The company's total sales stood at Rs. 340 crores, compared to Rs. 288 crores in the previous year. Sales during the first quarter of the company's financial year totalled Rs. 75.74 crores—an increase of 24 per cent over the corresponding period during the previous financial year.

Indian Oxygen's Sales Improve By 26 P. C.

THE Board of Directors of Indian Oxygen Limited decided to recommend a final dividend of 11 per cent for the year ended September 30, 1981. As an interim dividend of 9 per cent had already been announced on July 3, 1981, the total dividend for the year will work out to 20 per cent. They also decided to recommend the issue of 27, 37, 777 new ordinary shares of Rs. 10 each as fully paid up bonus shares in the proportion of 1:3, subject to the consent of the Controller of Capital Issues. The company's performance in 1980-81 (October 1 to September 30) has shown substantial improvement. Sales income, at Rs. 77.94 crores, was higher by about 26 per cent and the profit (before tax but after providing for depreciation and interest charges) amounted to Rs. 9.60 crores against Rs. 4,55 crores in 1979-80.

Somany Pilkington's To Set up Second Unit

SOMANY Pilkington's Limited has shown a sales turnover of Rs. 10.57 crores during the year ended June 30, 1981, against Rs. 6.35 crores in 1979-80. The pre-tax profit has gone up from Rs. 5.29 lakhs to Rs. 9.20 lakhs. Equity dividend remains the same at Rs. 1.25 (12.5 per cent per share). The second unit to produce tiles, is being located at Kadi (Gujarat). This unit will have an added advantage of firing with natural gas which will not only be economical but also simpler in maintenance. This unit has been licensed for production of 6,000 tonnes per annum. It is hoped that the unit will start production by September 1982. This year, the production increased to 14,608 tonnes as compared to last year at 9,243 tonnes.

Record Turnover By Premier Mills

PREMIER Mills Limited has shown a record turnover of Rs. 20 crores during the year ended June 30, 1981, compared to Rs. 18.92 crores in the previous year. However, this is not fully reflected in the profit earned during the year. From Rs. 2.20 crores for the 15-month period of the previous year, it has come down to Rs. 1.82crores. Even when calculated for the corresponding 12-month period, the profit works out to Rs. 1.76 crores. Reduced profitability is due to the high prices of cotton as well as staple fibre. This could not be passed on to the consumer in view of the prevailing competitive conditions. By a selective switch-over to blended fabrics and finer counts, the company expects increase its profits in the current year. Dividend is maintained at 16 per cent.

The first phase of the expansion at the 'C' Unit consisting of 300 looms and 25,000 spindles is complete. The company has acquired 60 lakshmi Ruti auto looms during this year, bringing the thtal auto looms to 168 as on June 30, 1981. Since then, 12 more auto looms have been acquired bringing the total to 180 auto looms as on date. The acquisition of 25,000 spindles in 'C' Unit has also been completed. The company has added about Rs. 12 28 crores worth of capital assets during the year. The company has also installed a processing unit at Bagalur. The Unit was commissioned in August 1981. The company is shortly entering the market with convertible, redeemable debentures worth Rs. 5 crores. The proceeds of the issue will be used partly to finance the Rs. 7.70-crore project for augmenting the spindleage from 25,000 to 50,000 at Belathur.

GST Improves Its Sales, Profit

THE Sales turnover of Gujarat Steel Tubes improved by 53 per cent, from Rs. 34.24 crores in 1979-80 (year ended June 30) to Rs. 52.48 crores in 1980-81. The gross profit for the year amounted to Rs. 3.23 crores, against Rs. 2.38 crores in 1979-80. The recomended equity dividend is Rs. 24 per share. The company has also declared a bonus issue in the ratio of 1:1 by capitalising Rs. 1.80 crores out of the general reserve. The company stepped up its exports by 53 per cent and has regained its position as the country's largest exports of steel tubes.

The company is setting up manufacturing facilities for producing all varieties of precision tubes on a large scale in a new building, construction of which has commenced. The total capital outlay for the project will be Rs. 5.20 crores. The company proposes to issue secured partly convertible debentures of Rs. 5 crores to finance this project. Necessary application has already been made to the controller of capital issues for consent. The working of Neeka Tubes Limited improved further, enabling all the accumulated losses to be wiped out.

SPIC's Gross Profit Improves

Southern Petrochemical Industries Corporation Limited has shown all-round improvement in its performance during the year ended June 30, 1981. Its gross profit for the year stood at Rs. 36.44 crores, against Rs. 28.98 crores in the previous year. The net profit, after providing for depreciation and interest, stood at Rs. 14.63 crores, against Rs. 8.30 crores in the previous year. The production of Urea and DAP was higher at 4.38 lakh tonnes and 1.39 lakh tonnes respectively against 4.13 lakh tonnes and 96,000 tonnes respectively in 1979-80. The total sales of fertilisers improved from 8.88 lakh tonnes to 10.51 lakh tonnes. This included the sale of imported fertilisers too.

During the year, the company commissioned a unit to recover hydrogen from synthesis loop purge gas in Ammonia plant. Work on the DAP second train has started. The project is expected to be completed by the end of 1982. The company is also contemplating the installation of a captive powers plant which will make uninterrupted production possible. The company is awaiting the Government's clearance for some of its new projects, including nitric acid and cement sulphuric acid plants.

Golden Tobacco Turns to Paper Making

Golden Tobacco Company Limited, which is engaged in the manufacture of cigarettes, is diversifying into the paper line. It has received a letter of intent for manufacturing wrapping and packing paper and also for making tissue paper. The company is also making efforts to set up tobacco, paper and fertiliser plants outside the country.

During the year ended June 30, 1981, the company's turnover rose to Rs. 128.65 crores, from Rs. 105.37 crores in 1979-80. The company's gross profit, which stood at Rs. 2.48 crores in 1979 80, marginally improved to Rs. 2.95 crores although, as a percentage of income, it fell from 2.36 per cent to 2.29 per cent. The after-tax profit improved from Rs. 77.52 lakhs to Rs. 1.24 crores. The equity dividend has been stepped up from Rs. 1.50 per share to Rs. 1.80 per share. The bulk of the company's income goes for the payment of excise duty. Out of Rs. 128.65 crores, the company paid excise duty amounting to Rs. 92.10 crores.

42 Per cent Rise in Sales of Punjab Tractors

THE sales of Punjab Tractors Limited recorded a rise of over 42 per cent, from Rs. 34.34 crores to Rs. 48.95 crores during the year ended June 30, 1981. There was also a 37 per cent rise in pre-tax profits which went up from Rs. 2.05 crores to Rs. 2.81 crores. Production of tractors was higher, at 9,130 against 7,116 in 1979-80. The company's export earnings also improved from Rs. 20 lakhs to Rs. 50 lakhs. In 1980-81, the company produced 80 harvester combines. Equity dividend declared in 1980-81 totals 16 per cent, against 15 per cent in 1979-80. The 13.5 per cent "rights" debentures issued by the company in September last year was fully subscribed.

Formation of Indian Container Lines

Indian Container Lines (ICL)—a consortium of the Shipping Corporation of India, the Scindia Steam Navigation Co. and the India Steamship Co.—was formed in April 1981 on the termination of pooling arrangements in the India – Pakistan – Bangaladesh / UK-Continent Conference.

The two major objectives of ICL are to secure for Indian flag its legitimate share in the total cargo turnover between ports of India-UK-Continent and contribute to the efforts of IPBC members to retrieve the cargo presenly carried by non-Conference operators. To achieve there, ICL will provide both fully containerised and break bulk services. The three Indian lines have inducted six container vessels to operate exclusively in this trade on a fortnightly frequency.

8-Crore Turnover By Ashok Hotel

The Public Sector Ashok Hotel of the India Tourism Development Corporation (ITDC) registered a turnover of Rs. 8.11 crores during 1980-81. The hotel, which has completed 25 years of service to the people, earned a net profit of Rs. 1.71 crores in 1980-81. The direct foreign exchange earning during the year amounted to Rs. 66 lakhs. The hotel achieved 80 per cent occupancy in 1976-77, 89 per cent in 1977-78 and 85 per cent in 1978-79. Ashok Hotel has hosted 15 lakh guests during the 25 years of its service to the nation. Today Ashok, with its 600 rooms, is among the three largest hotels in the country and the largest outside Bombay.

PERSONALITIES

R. Parthasarathy

Mr. R. Parthasarathy, IAS, has taken over as Executive Director in Gujarat Narmada Valley Fertilizers Co. Ltd. (GNFC) Baruch. Mr. Parthasarathy's brilliant academic carrier in Delhi University is a series of firsts in the Science Stream besides the award of All India post graduate merit scholarship. After doing a stint in teaching chemistry in Delhi University, Mr. Parthasarathy joined Indian Administrative Service (IAS) in 1963.

Manmohan Shenoi

Mr. Manmohan Shenoi was appointed as one of the General Managers of Syndicate Bank with effect from November 5, 1981. Mr. Shenoi was born in 1932. A graduate in law, Mr. Shenoi joined Syndicate Bank in the year 1962 and since 1963, he was heading the Department of Law till 1979. He was also holding charge of the Planning & Development Department for some time. He took over as Chief Personnel Manager of Syndicate Bank on November 19, 1976 and as Deputy General Manager (Personnel) with effect from January 19, 1978. Prior to his joining Syndicate Bank, Mr. Shenoi had worked as an Advocate at the Civil Courts at Mangalore.

B. N. Reporter

Mr. B N. Reporter, Joint Managing Director, the Associated Cement Companies Ltd., was re-elected President of the Indian Roads and Transport Development Association (IRTDA) in Bombay. IRTDA is one of the country's oldest and largest associations which represents the problems of the transport industry. In the past, it has made effective suggestions to the government for streamlining the transport industry so that it could contribute to the country's economy.

SOUTHERN ECONOMIST

February 1, 1982

CONTENTS

EDITORIAL 1
New Fiscal Strategy?

CURRENT TOPICS 2
Kudremukh Loan; Outlook on Oil Front; Excise in Place of Sales Tax?; EEC and India; Cut in IDA Aid

The Antulay Ouster; Beginning of the End? 6
By K. N. S.

GLASS HOUSE GOSSIP 7

SPECIAL ARTICLES 9
Chemical Fertilisers and Growth Prospects of Indian Agriculture
By Dr. M. Manohar Apparao
Growing External Debt Burden in India: 1950-51 to 1979-80
By Neela Mukherjee

BOOK REVIEWS 21
Growing Enough Food for India's Millions

R B I REPORT 24
Inflation Continues Despite Higher Production

PUBLIC SECTOR 27
IDBI Sets New Records in Lending Operations

COMPANY NOTES 28
Associated Cement Companies; Kirloskar Brothers; Chemicals and Fibres of India; K A P Steel; Suri and Nayar

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

New Fiscal Strategy?

THE shifting of Mr. R. Venkataraman from Finance to Defence is an indication that a new strategy for public expenditure, taxation and investment is in the offing. Whether the new strategy will mark a complete break with the one that was incorporated in the two budgets presented by Mr. Venkataraman, one cannot be certain. At any rate, the new Finance Minister, Mr. Pranab Mukherjee, can be expected to apply the corrective to the supply side bias — not to be confused with Laffer's supply side economics — displayed by his predecessor. To be sure, the measures adopted in the 1980-81 and 1981-82 budgets to stimulate investment and export effort will be preserved. And, it is also a fair surmise that, with Mr. L. K. Jha playing a crucial advisory role, the budgetary policy will be pulled back to its neo-Keynesian moorings.

No novice to high finance — he was an influential minister in the Finance Ministry during the emergency — Mr. Pranab Muherjee can be expected to re-mould the taxation mix in such a way that a neat balance is struck between direct and indirect taxation. In his two budgets, Mr. Venkataraman had earned the gratitude of the salaried classes by raising the income tax exemption limit up to a threshold of Rs. 15,000. This and the concessions given to the corporate sector (surcharge reduction, investment-related concessions, tax holiday for export-oriented industries and so on) should continue. Mr. Mukherjee should either make a frontal assault on inflation, which is likely to get back into two digits, in which case he need not think of indexation, or evolve a *modus vivendi* to protect the saver and the investor from the erosion caused by inflation.

Huge deficits characterised the budgets of the past four years. The deficit was Rs. 1,506 crores in 1978-79, Rs. 2,433 crores in 1979-80 and Rs. 1,975 crores in 1980-81 (R. E.). The 1981-82 budget had left an uncovered gap of Rs. 1,539 crores. Since there has been an escalation under several heads of expenditure — notably defence expenditure — the revised estimates for 1981-82 may well show a deficit of Rs. 2,000 crores. The impact of deficits is reflected in the rate of growth in money supply which has been three times higher than the real growth of the economy. Considering that the dearness allowance of the Government employees is indexed and that the Government has virtually no control over the consumer price index, Mr. Mukherjee will be under pressure to raise more resources to cover successive rounds of D.A. increases. Defence is another sacred cow which needs to be fed copiously. The Finance Minister will thus find it difficult to satisfactorily reconcile the need to keep the budgetary deficit within prudent limits and the necessity to raise more resources to finance the growing expenditure on administration, defence and development. What makes the 1982-83 budget different from the previous years' budgets is the fact that it will be formulated within the constraints of the fiscal and monetary policy agreed upon at the time of securing the $ 5.7 billion IMF loan. That is a sobering thought.

CURRENT TOPICS

Freezing Repayment of Kudremukh Loan

THE stoppage of the repayment of the Iranian loan of $ 255 million by the Indian Government should not cause any surprise. But for the leverage Iran enjoys by virtue of her being an oil exporter, India would have taken this step much earlier. Better late than never. The fact remains that Iran has violated the agreement under which she should have paid the entire amount of $ 630 million for financing the completion of the Kudremukh iron ore project. The original arrangement was to set up two major steel mills based on direct reduction process in Iran. The Kudremukh project, which was tied to these steel mills, was to have supplied iron ore concentrate at the rate of 7.5 million tonnes per annum for well over two decades.

But for the intervening Khomeini revolution, the project—on both sides of the Arabian Sea—would have been completed and India would have started shipping the ore concentrate from August 1980. The Kudremukh agreement, signed in 1975, contains penalty clauses and failure to lift the ore shipped by India is as great a breach of the understanding as any failure on the part of India to ship the ore concentrate to Iran according to the agreed time-schedule. It is against this background that one has to view the stoppage by India of the payment of further instalments of the Iranian loan. An equivalent of Rs. 30 crores has so far been paid and the balance amount will be released only after the 1975 agreement is re-negotiated to the satisfaction of both the countries.

This need not be construed as an unfriendly act since the stoppage of the repayment of instalments does not amount to default. The prospect of steel mills coming up in Iran—one at Ahwaz and another at Bandar Abbas—hinges on (a) the end of Iran's war with Iraq and (b) the abortion of the Khomeini revolution which seems to be on its last legs (forgive the mixing of metaphors). Since the Kudremukh project is ready—like a lady fully dressed up but nowhere to go—India can resume the supply of ore concentrates even if the proposed steel mills are taken up now and complete by, say, 1986.

Meanwhile, Kudremukh remains a white elephant — why not call it a white horse, for a change—of the Steel Ministry. For one thing, the shifting of Mr. K.C. Khanna from the Steel Ministry—it was he who headed KIOCL till recently — has deprived the ill-conceived project of its only lobbyist. For another, Mr. Pranab Mukherjee, who seemed to have been sold on the idea that it is possible to keep Kudremukh as a going concern, has been shifted from Steel to Finance. Thus, deprived of its god fathers, the project seems to be fast losing its *raison d' etre*.

To be sure, the ore concentrate produced at Kudremukh — the present capacity-utilisation is anybody's guess — has hardly any takers since it can be used only in countries where gas is in abundant supply, making possible the adoption of direct reduction process. Although nearly half a dozen countries evinced interest in the Kudremukh concentrate — they included Malaysia, Indonesia and Bulgaria — India has not succeeded in striking a deal with any of these countries for the export of this product. Rumania is the only country which has agreed to take 3 million tonnes of concentrate, spread over a period of three years. The agreement with Rumania is linked with its offer to supply know-how and equipment for the setting up of a pelletisation plant at Mangalore, to convert the concentrate into "pellets" which seems to have a better demand, both at home and abroad.

Even if Rumania lifts one million tonnes of concentrates per annum, that does provide an answer to the problem faced by the Kudremukh project, since commitment to Rumania will take up only one-seventh of the capacity of Kudremukh, which is in the region of 8 to 10 million tonnes per annum. Meanwhile, the KIOCL management is whistling in the dark hoping, like Mr. Micawber, that (a) two or three sponge iron plants based on Bombay High gas will come up along the West Coast; (b) the private sector units which will produce sponge iron can make use of Kudremukh pellets and (c) part of the Visakhapatnam steel project will be designed to use the direct reduction process based on coal technology. The management has also thrown hints that the needs of Kudremukh could be kept in mind while designing the Vijayanagar steel project. While one cannot seriously question the feasibility of some of these proposals, one is constrained to suggest that before tying up the Kudremukh pellets, to any future project, the Steel Ministry should work out the cost per tonne of producing the pellets, right through the process of making the concentrate and transporting the concentrate slurry to Mangalore and also the cost of producing steel through the sponge iron route. It should not take *ad hoc* decisions to save a project whose economic viability was never established.

Encouraging Portents on Oil Front

THE one area where the Government has shown some dynamism is oil. Its policy is marked by crisis management on the one hand and a continuing search for new oil-bearing regions on the other. The two-pronged approach has yielded some positive results. The current year's needs are being taken care of, by entering into firm contracts for importing crude and petroleum products with as many as seven countries. The bulk of the needs, totalling 14.5 million tonnes, will be met by the Middle Eastern nations. Four of them, namely Iraq (3.5 million tonnes), Iran (3.3 million tonnes), Saudi Arabia (2.65 million tonnes) and United Arab Emirates (one million tonnes) will supply a total of 10.45 million tonnes. The balance will be taken care of by the Soviet Union (2 50 million tonnes), Venezuela (half a million tonnes) and Nigeria (half a million tonnes). There is also an arrangement to exchange one million tonnes of Bombay High crude for Arabian light crude. In addition to the import of crude, the country will also be importing 2.25 million tonnes of petroleum products from the Soviet Union and a smaller quantity of the same from Kuwait. With the expected domestic production of 16.5 million tonnes, the country's estimated demand of the order of 31 million tonnes has been fully covered. The absence of any major price-escalation in 1972 should help to keep the country's oil budget undisturbed.

On the oil exploration front, the outlook is promising. The goal of the 20-year perspective plan drawn up by ONGC is to produce 100 million tonnes by the turn of the century. This optimistic projection is based on the promising results so far obtained in the Palk Strait, Godavari basin and the new field near Bombay High. Prospects are also good in other areas like Konkan, the North-Eastern region, West Bengal and the Andamans. Estimates of "proven" oil reserves of the country have been stepped up by 300 million tonnes to 2,500 million tonnes. And the Sixth Plan target is also being revised upwards. In tune with the growth in the demand for petroleum products, the country's refining capacity is also being augmented. With the commencement of production at the Mathura refinery, the refining capacity will go up by 6 million tonnes to about 38 million tonnes. There are proposals to set up two more refineries having a capacity of six million tonnes each. One of them is expected to be located at Mangalore, in Karnataka.

Excise in Place of Sales Tax ?

THE shuffling of major portfolios at the Centre seems to have caused a major set back to the move to shift some of the items in the states' sales tax net to the central excise. The items that were proposed to be transferred in this manner included cement, drugs, "petroleum and petroleum products" and paper. Under pressure from the business lobby and taking his cue from the recommendations of the Jha Committee, the former Finance Minister, Mr. R. Venkataraman, had already initiated exercises in his ministry for working out the modalities of such a transfer. In fact, Mr. Kanwarlal Gupta, a BJP leader and former MP, who argued the case for such a transfer before Mr. Venkataraman, was reported to have elicited an assurance to the effect that the replacement of the sales tax by the central excise duty in respect of the above-mentioned items was being favourably considered. Now that Mr. Venkataraman is shifted to Defence, the Finance Ministry is unlikely to pursue the proposal—more so since the new incumbent, Mr. Pranab Mukherjee, is not inclined to tread controversial areas in his very first budget.

That the administration of the sales tax in the states leaves a great deal to be desired may be readily conceded. The opponents of the sales tax — primarily the business lobby — have argued that the lack of uniformity in the method of levying sales tax, the widespread corruption it has given rise to, in the tax administration, and the resultant harrassment to the traders have rendered the tax a bad one. It has also been argued that if a tax at the same rate is collected through the central excise, it will yield larger revenues since there have been sizable leaks in the collection of the sales tax. Collection of a larger amount by the centre would mean the transfer of a larger sum to the states.

While the logic of some of these arguments cannot be refuted, the states are yet to be convinced that a narrowing of their tax base would not unduly encroach on their fiscal autonomy which already remains eroded. If the main complaint against the sales tax is the lack of uniformity in the rates prevailing in different states — this causes a shift of trade from the high tax areas to the low tax areas — this can be remedied by the Governments adopting uniform rates, without necessarily shifting the commodities under the sales tax to the list of central excise duty. As to the other argument that the yield will be higher under a system of central excise duties, it has yet to be established by empirical evidence. A look at the picture of the states' taxation will reveal that the sales tax occupies the pivotal position and a narrowing of the sales tax base will considerably weaken the budgetary position of the states. No less an authority than Dr. V. K. R. V. Rao has come out strongly against the replacement of the sales tax by the central excise duty. In his address (November 3, 1981) at the Federation of Karnataka Chamber of Commerce and Industry Dr. Rao observed:

> The sales tax is a state prerogative and it forms a part of state autonomy and the working of political democracy at the state level of Government. Our system of Government is a federal one and anything which takes away the existing fiscal powers of state Governments, even if it is compensated by equivalent central grants, is an infringement of the federal principle and a breach of the state autonomy given under the constitution. I am therefore totally opposed to any suggestion for replacing the sales tax by additional excise duties.

Mr. Pranab Mukherjee will be disturbing a hornets' nest if he allows himself to be pressurised into bringing more items of sales tax (in addition to cloth, sugar and tobacco) into the excise duty net. It would be wrong to think, on the basis of the silent nod from the Finance Ministers of Congress (I) Governments, that the majority of the states are in favour of the measure. All the non-Congress Governments have forcefully opposed the measure. The others too will oppose the move, if the Congress (I) Finance Ministers are allowed freedom to air their views freely.

EEC and India: Towards Closer Co-operation

THE failure of the Indo-European Joint Commission, which met in New Delhi on January 22 and 23, to arrive at any major decision in favour of a more liberal trading arrangement should not cause any surprise. The visit of Mr. Wilhelm Haferkamp, Vice President of the European Commission responsible for external relations was primarily exploratory. He did not visit India to negotiate any agreement. Given this limitation, it can be said that the meeting of the Joint Commission yielded some positive results. For one thing, India's case for a larger allocation of funds from EEC's aid budget received a sympathetic hearing. Even here, EEC has not been niggardly. Under the Chysson Fund — administered to help the very poor who are affected by the oil price rise — India received $ 75 million out of a total of $ 187 million. Under the Special Action Programme of the Community, India has received about $ 50 million out of $ 439 million given to all the LDCs. Outside these two aid programmes, India has also received substantial amounts under project aid. In 1980, it amounted to $ 44 million.

However, trade between India and EEC has not improved along the lines that can be considersd as healthy, from the point of view of a developing country. Since the first economic co-operation agreement was signed with EEC in 1973, India has been running a sizable deficit, except during the years, 1976 and 1977, when there was a trade surplus. From $ 238 million in 1979, the trade gap rose to $ 694 million in 1980. It was much larger in 1981 and the deficit in 1982 is likely to reach a record level. This adverse trend is partly the result of India's failure to take advantage of EEC's Generalised Scheme of Preferences and, to some extent, due to the liberalisation of imports in 1981.

Although EEC's exports to, and imports from India forms barely one per cent of the community's trade with the outside world, the region accounts for 26 per cent India's total exports and 27 per cent her imports. EEC occupied the top position in India's trade, with the United States (10 per cent) coming second and the Soviet Union (8.4 per cent) coming third. A major flaw in the pattern of trade between EEC and India is that nearly one-third of our exports to this region consist of agricultural products which are experiencing a recession in the world markets. And none of the commodities that India exports lends itself to cartellisation (*a la* OPEC). Secondly, India's exports also seem to be losing their competitive edge, as can be seen from the 2 per cent decline in India's exports to EEC witnessed in 1980, against a rise of 30 per cent in the exports of LDCs to the Community.

That this should happen in a region where India enjoys considerable duty preferences is indeed surprising. Actually, 43 per cent of India's export of manufactured products enter EEC duty-free. And 95 per cent of the remaining goods are covered by GSP. The only item which is subjected to quota restrictions is "textiles and clothing." This is governed by the terms of the Multifibre Arrangement which has been renewed from January 1 for another four years. Although in value-terms, there has some improvement in exports of these items—yarn, cotton fabrics and clothing—the quantum exported has remained stagnant. This setback cannot be explained wholly by the restrictive nature of the Multifibre Arrangement when one considers that the quota-utilisation by India ranged from 23 per cent (cotton yarn) to 69 per cent (women's blouses). The only item the quota of which was almost fully utilised was "T-shirts". A working group of the Indo-European Commission has been set up to go into these problems and one may hope that a suitable arrangement will be thrashed out when the two parties meet in Delhi next month to give shape to a new textile agreement.

IDA Aid: Americans Have Their Way

HARD on the heels of the visit to India of the World Bank's President Mr. A.W. Clausen comes the announcement of the drastic cut in the amount available for the loans that can be sanctioned by IDA, the bank's soft loan window. The Bank's Executive Directors, at their meeting held on January 26, slashed this amount to $ 2.6 billion, from the planned level of $ 4.1 billion, for the fiscal year 1982. In this, South Asia's share has been reduced from $ 2.8 billion to $ 1.6 billion. Considering that India claims the lion's share in the allocation to South Asia, it may be presumed that the cut will be quite drastic in the case of this country. Mr. Clausen has indicated that India's share would be reduced from $ 1.6 billion to $ 840 million.

It cannot be denied that some of India's development programmes under the Sixth Plan will be affected by the cut in loans from IDA which, besides carrying only a nominal rate of interest, is repayable over a long period. The cut is all the more regrettable since India has made good use of the loans from the World Bank and IDA, as is evident from the encouraging results seen in the oil exploration programme, executive of irrigation projects, the expansion of fertiliser capacity and in modernising agriculture. But there is the consolation that the cut in IDA credits will be made good, to some extent, by the World Bank's loans made, of course, on harder terms. Whether India will be able to avail of these loans to the maximum extent yet remains to be seen. If she does, the Bank group's aid will still be close to the current level of $ 2 billion per annum. This is reflected in the Executive Directors' decision to step up, what may be termed compensatory World Bank credit, by about $ 800 billion to the countries whose share in IDA credit is being drastically reduced this year. Another refinement introduced by the Bank's Board, at its January 26 meeting, is the "graduation" level reached by a country, in terms of its *per capita* income. The level, which automatically takes a country out of the list of eligible borrowers, is $ 2,650 — the Americans actually suggested the lower figure of $ 2,000 — is of academic interest to India whose *per capita* income has to rise by more than 12 times to reach this cut-off point. Furthermore, this stipulation does not affect the Bank's lending programme to most developing countries since their *per capita* incomes are far below this "graduation" level. Even so, the Americans can be said to have won a debating point in securing the Bank's acceptance of this threshold. It has been the argument of the high priests of Reaganomics that countries which seek international assistance — and have the absorptive capacity — should, instead of approaching the World Bank, go to the Eurodollar market and similar sources to secure investible funds.

Another change that is being introduced by the Bank, in the re-shaping of its aid philosophy, is to shift the emphasis from "poor" countries to the "poorest" countries. These are the nations which have no access to the international capital market because of their poor credit-worthiness. It therefore stands to reason that they should get a larger slice of the soft loans given by IDA. Judged by the criterion of *per capita* income, India can still be bracketed among the poorest of the poor — she occupies the 15th rank from the bottom — but as Mr. Clausen pointed out, she has access to the international capital markets by virtue of its excellent credit-worthiness. Therein lies a paradox. While there are areas where India can possibly put to profitable use the loans secured on hard terms, "investment" in crucial areas — like health, family planning and infrastructure development — should continue to be on "soft" terms, if the purpose is to avoid the repayment burden which often neutralises the favourable effect of aid.

The changes brought about in the aid criteria and the shifting of the emphasis from soft loans to hard loans call for an agonising reappraisal of India's policy for receiving aid. Already, the country's acceptance of the $ 5.7 billion IMF loan has spurred a nationwide debate on the pros and cons of accepting aid terms which seems to influence domestic policy. To the extent that the external payments distortions are caused by factors beyond the country's control—the oil price increases in the seventies represent one such example — recourse to large-sized structural adjustment loans may be unavoidable but in the present situation in which the richer nations show signs of "aid fatigue" and put forward unacceptable — and often impractical—terms for the assistance they are prepared to give, the LDCs will have every reason to reconsider their development strategy. India, which has achieved a fair degree of diversification, is in a position to reduce its aid reliance to a level which can be considered as irreducible. In the fifties and the sixties, China could force the pace of development in the face of virtual boycott by the international community. India does not have to go through this ordeal, which can be a blessing in disguise, but she can well afford to reduce the aid component of its development programme to a level at which repayment and servicing do not become too burdensome.

The Antulay Ouster: Beginning of the End?

By **K. N. S.**

THE half-hearted manner in which the Prime Minister, Mrs. Indira Gandhi, yielded to popular pressure to relieve Mr. A. R. Antulay of the Chief Ministership of Maharashtra does not enormously add to her prestige. It is a fair surmise that if the judgement of the Bombay High Court, delivered by Justice Lentin on January 12 had gone in Mr. Antulay's favour, Mrs. Gandhi would not have asked the controversial Chief Minister to resign. Why should she, when (a) Mr. Antulay remained a loyal follower and (b) he managed to keep the majority of Congress (I) MLAs in the Maharashtra Assembly on his side through a spoils system which he himself had evolved?

Even with the Lentin judgement going against Mr. Antulay, Mrs. Gandhi could have exercised an unpopular option, namely, the option of allowing him to continue till the Supreme Court disposes of the appeal that is being filed against the judgement. Actually, barrister Antulay pointed to an honourable precedent to this. Did not Mrs. Gandhi continue in office even after the Allahabad High Court delivered an adverse verdict in her election case? If Mrs. Gandhi did not exercise this soft option, it was because the experience of 1975 showed that such a course would provide a rallying point to the opposition as her refusal to resign after the Allahabad High Court's judgement did. By doing the right thing, however reluctantly and however belatedly, Mrs. Gandhi denied to the opposition parties an opportunity to unite on this issue. They may still unite and continue their sniping but the old pattern will not repeat.

The Antulay ouster and the selection of a person from the Antulay camp to succeed him give one a feeling that there is no change in the form and content of Mrs. Gandhi's overall policy. One may or may not agree with the familiar charge of Mrs. Gandhi's detractors that she is the fountain-head of corruption. But the fact remains that she has chosen to function within the constraints of a corrupt system. And there is very little difference between saying that one is part of a corrupt system and that one is corrupt. If Mrs. Gandhi does not feel strongly about the methods adopted by Mr. Autulay to collect funds for his trusts, it is because this is the time-honoured method adopted by politicians, not only in Maharashtra but in all the states, to collect funds for their parties.

The *modus operandi* and the purpose, though thinly disguised, remain the same. Mrs. Gandhi is only being consistent in not taking the Shourie expose (*vis a vis* Antulay) seriously. In the opinion of the apologists of *staus quo*, Mr. Antulay's fault lies not in collecting money from favour-seekers but in doing it blatantly and in allowing his detractors to establish a direct causal connection between favours given and funds received. To them, the *quid pro quo* principle is not bad, *per se*, so long as it does not expose itself to adverse judicial opinion. If this is hypocrisy, our politicians would like to elevate it to the status of a virtue.

To the public — and to the crusaders who were fighting against corruption — the exit of Mr. Antulay does not give cause for rejoicing. The manner in which Mrs. Gandhi handled the Antulay issue tends to weaken the forces that are opposed to corruption because they cannot be sure that the Prime Minister is on their side. This is a great pity. With Mrs. Gandhi showing a reluctance to change the system, the crusade against corruption assumes a new complexion. It is going to be an unequal fight, with a handful of right-thinking people with no political clout pitted against not only the vested interests who wield enormous money power but also the almighty Government which refuses to change its ways.

From whatever angle one looks at it, the ouster of Mr. Antulay from the Chief Ministership does not provide an answer to the issues raised by Mr. Arun Shourie and other crusaders of the Indian Press. Mr. Antulay may, with the efflux of time, be thrown on the scrap-heap of history. But his ghost will continue to haunt the Indian political scene so long as the conditions which made possible the rise of an Antulay continue. How this ghost can be exorcised, bell, book and candle, remains a challenging question. For a developing country with a fragile leadership–base comprising only the corrupt and corruptible elite, any radical change of the system is fraught with grave consequences.

While the fight against the system should go on, one should not be under the illusion that victory in this fight will mean the restoration of civilized, decent norms of public conduct. The tyranny of the righteous can often be as oppressive as the inequities that the people have to suffer under a corrupt system which it replaces. What renders a corrupt system resilient is its benign character. While it corrodes the fabric of the society, it does not drive people to desperation — so long as they remain a tolerant lot. For those who are carrying on the war against corruption, the immediate task is to bring about a liquidation of the last vestiges of the Antulay "empire" and then to turn the spotlight on other corrupt elements in other states.

Glass House Gossip

TEMPERAMENTALLY, I am averse to *bandhs, hartals, gheraos* and other negative manifestations of anger. I am a revolutionary at heart and a moderate when it comes to expressing revolutionary feelings. From long experience, I have come to believe that one cannot bring about radical changes in social and economic relationships by merely staging a nation-wide work-stoppage. That is what these *bandhs* are about. The reader may well retort: What then is the alternative? Well, I have no neat, capsule-shaped answer to that question. Even if I have, I won't spell it out in these columns.

The Bharat *bandh* observed on January 19, in response to the call of certain opposition parties and trade unions, was a partial success or partial failure, depending how one likes to pronounce it. Understandably, the pro-Indira newspapers called it a total flop while the opposition papers termed it a success. I do not think these opinionised headlines enormously added to the credibility of our newsparers. But who cares for credibility, these days? If one were to assess the impact of the January 19 bandh in terms of the extent to which it paralysed life in the country, I can say it proved to be a damp squib. True, work-stoppages in factories were widespread but that did not unduly disturb the even tenor of life in the cities. Buses and trains ran almost on schedule and the postmen delivered mail as usual. Where shops and cinema houses were closed, it was more in order to prevent losses resulting from acts of goodaism than to express sympathy with the opposition's cause.

True, the strikes organised by trade unions other than INTUC were a success. This goes to show that the pro-Government INTUC is losing its hold on the working class. If Mrs. Gandhi is not greatly worried over this trend, it is because organised labour forms only a tiny segment of the country's total population. If Mrs. Thatcher can thumb her nose at the U. K. trade unions which are positively hostile to her Government, Mrs. Gandhi has better reasons to be standoffish in regard to the demands of the workers in India, who do not enjoy as much clout as their brethern do in U. K. and other industrialised countries. Even so, Mrs. Gandhi will do well—irrespective of the outcome of the one-day *bandh*—to take note of the resentment of organised labour over enactments like the Essential Services Maintenance Act and the National Security Act. They view these enactments as measures aimed at curbing legitimate trade union activity and political dissent. That the ESMA has not, so far, been used to deal with strikes, the trade unionists argue, does not take away the obnoxious character of the legislation.

Nearer home, in Bangalore, not a dog barked, either on the night preceding the *bandh* or on night after it. The autorickshaws plied as usual and BTS ran its buses to all parts of the city without encountering any major road block. Credit for this should go, in a large measure, to Police Commissioner Nizamuddin who had thoughtfully deployed a very large contingent of the police force in the likely trouble-sports of Bangalore. While applauding the efficiency of the city police for the manner in which they dealt with the *bandh* phantom, I may be permitted to ask a small question: Why did they fail so miserably when, three years ago, the city was held to ransom by a handful of hoodlums (they now occupy responsible positions) in the wake of the arrest of Mrs. Gandhi, during the Janata regime? Whoever headed the city police force at that time will do well to ponder if he sincerely discharged his duty as Mr. Nizamuddin did on January 18 and 19. Again, why did Mr. Nizamuddin, whose competence as a super cop is above dispute, develop cold feet on that night when a powerful Congress (I) M. P. tried—under the influence of alcohol—to prevent the policemen from doing their duty? Why?

□ □ □

I rarely comment on Mrs. Gandhi's choice of chief ministers—I consider it a waste of time—but I cannot resist the temptation to say something on her choice of Mr. Antulay's successor. Were it not for the fact that Bombay happens to be the industrial and financial (mainly of the black variety) capital of India, I would have ignored the choice of Mr. Babasaheb Anantrao Bhosale as the Chief Minister of Maharashtra. Mr. Bhosale, a down-graded minister in the Antulay cabinet, is a nonentity in Maharashtra politics. Though a *maratha*, he tacks the fighting qualities of the typical *maratha*.

As far as I see, the only consideration which disqualifies him for being chosen the Chief Minister should have been—you now guess wrongly—the fact of his being a camp-follower of Mr. Antulay and certainly not his record as a minister. I do not bear a grudge against this man. I hardly know anything about him. If I disapprove of his choice, it is because, being an "Antulay man", he perpetuates the Antulay tradition. In choosing such a person, Mrs. Gandhi, in effect, seems to be telling the people of Maharashtra: Although I approve of everything that Mr. Antulay did, he had to go because the High Court delivered an adverse judgement in the cement case. Mr. Antulay continues to enjoy the support of the majority of Congress (I) MLAs in Maharashtra. Therefore, I did the only sensible thing, as a true democrat, in nominating a man from the Antulay's camp. In spite of the apparent neatness of this logic, I do not think it will go down well with the average Maharastrian.

What Mrs. Gandhi forgets is that basically it (the choice of Mr. Antulay's successor) is a moral issue like the choice of Mr. Nixon's successor after Watergate. Would the Americans have accepted Ford as the successor to Nixon if he was a known Nixonite ? It is far from my intention to insinuate that Mr. Bhosale had any hand in the cement deals or is connected with Antulay's trusts. The very fact that, unlike Shalinitai and many other "rebels", Mr. Bhosale did not have the courage to tell Mr. Antulay that he was in the wrong, should have disqualified him for the Chief Minister's post. If Mrs. Gandhi was a stickler to procedures, she should have allowed Mr. Antulay to continue in office until the Supreme Court gives its verdict, as she herself did after the Allahabad High Court's historic judgement.

What she has done now does not add up to sound policy. Mr. Antulay had to go because public opinion was against him; at the same time, Mr. Antulay's man had to be chosen because, Mr. Gandhi knew that the *enfant terrible* of Maharashtra's politics had enough supporters (among the MLAs) who can de-stabilise any new ministry in Mantralaya. By choosing an Antulay-man, Mrs. Gandhi has thrown the gauntlet at Mr. Antulay's detractors who are unlikely to accept Mr. Bhosale as their leader. The sugar lobby, I am sure, will not reconcile itself to a man whose only strong point is loyalty to the supreme leader. And this lobby can make things difficult even for a trusted nominee of Mrs. Gandhi. I look forward to see how Mrs. Gandhi deals with this incipient revolt within the party in Maharashtra.

□ □ □

LAST fortnight's reshuffle of Mrs. Gandhi's cabinet merits passing comment. Not that I was a great admirer of Mr. R. Venkataraman who will be remembered as a Finance Minister who brought respectability to black money by issuing the bearer bonds but one is perplexed at the way Mrs. Gandhi demotes people — sometimes by kicking them upstairs. Defence has never been RV's forte and, with the eye trouble, he cannot even train his binoculars to see what is happening down there, across the border. But lack of clear vision — not in the strictly literal sense — cannot be associated with Mr. Venkataraman. He may well make a good defence minister. Even so, with only six weeks left for the Union Budget, Mr. Venkataraman must be feeling terribly sore over the change of portfolio.

By the way, should he take it as a reward or punishment ? Should one take it as poetic justice for one who stood up to the opposition's onslaught on the Antulay issue, swallowing the slanderous accusation that he "lied" to the Parliament ? Mr. Venkataraman was up-to-date with figures (often the wrong ones) and he even flourished a pocket calculator to show how modern he was, in these matters. But, alas, not many were impressed by the way he tried to play down the impact of inflation. Mr. Venkataraman was, at heart, a supply-sider. He demonstrated this in his two give-away budgets which let off the rich (direct tax payers, in this country) lightly. His supply-side economics did not work because the incentives he gave were not matched by a proportionate cut in public expenditure, especially of the unproductive variety.

The youthful Mr. Pranab Mukherjee, who steps into Mr. Venkataraman's shoes, is a man for all seasons. Mr. Pranab Mukherjee will have the full backing of the Prime Minister in whatever he does, so long as he takes care not to tread on tender corns. Besides, he can always count on the advice of Mr. L.K. Jha who is closer to Mrs. Gandhi than are even the senior cabinet ministers.

□ □ □

I do not consider the *sari* worn by Indian women to be the most elegant feminine attire but nothing covers the essentials as effectively as the six-yard *sari*. And the intriguing thing about the *sari* is that it often reveals as much as it conceals, depending on the inclination of the wearer. Be that as it may, the women of Pakistan are unlikely to take the ban recently imposed on the *sari* with philosophic resignation. Whether the ban applies only to office going women or to all women in Pakistan, I am not sure. Could it be that President Zia's *firman* is aimed at humiliating the Bhutto ladies who generally wear *saris ?*

From whatever angle one looks at it, the Pakistani ban on *saris* seems irrational. How can one call the wearing of the *sari* as un-islamic simply because the *sari* originated in the "Hindu" India ? I am not even sure that a switch-over to the *salwar-kameez-dupatta* combination would be cheaper. What the wearer saves in the length of the cloth (even this is doubtful) she will lose on stitching charges, not counting the cost of the diaphranous *dupatta*. How do the Pakistani men folk feel, about it, by the way ?

— **Plebeian**

special articles

Chemical Fertilisers and Growth Prospects of Indian Agriculture

By **Dr. M. Manohar Apparao**

Widespread use of chemical fertilisers is a relatively new phenomenon in Indian agriculture. Fertiliser-induced agricultural transformation received a setback in the seventies due to the skyrocketing of petroleum prices. While the impact of high prices is cushioned, to some extent, by subsidisation, the small farmers have not been able to fully benefit from the application of modern inputs like fertilisers because of the cost factor. In this paper, the author analyses these constraints in the context of the prevailing widespread poverty in the rural sector and suggests that chemical fertilisers should be used in combination with organic manure in order to retain soil fertility and to reduce input costs.

THE most important requirement for transforming traditional agriculture into modern farming and to sustain it as a high productivity commercial venture is to generate proper environment in which farmers feel safe and assured of the ultimate fruits of investment. Another requirement of equal importance is the presence of limited outside manipulation such as administrative price fixation and subsidisation to maintain the environment which do have harmful repercussions when the degree of interference falls beyond the capacity of economy to absorb. The various uncertainties affecting agriculture should be controllable in such a way that they do not significantly influence either the profitability at the micro level or the growth in production at the macro level. It cannot be an exaggeration to say that all the present day policies and strategies towards agriclture in countries like India stem basically from the idea of creating and sustaining an environment that is free from uncertainties and constraints and their degree of success naturally depends on the relative strengths of pushes and pulls of factors that are external and internal to the country. If the external factors tend to outweigh the internal ones, the policy maker loses much of his hold on the agricultural sector. Then, only a different level of technology, perhaps with a different agricultural input structure may come to the rescue in the ultimate analysis. Until such transformation is possible, farmers have to face many an uncertainty, dilemma and erosion into their resources.

The Indian farmer is confronted with many uncertainties whereas in developed countries farming has been industrialised long ago. So, the conditions are more controllable than in India. The high incidence of rural poverty in India inspite of various strategies to alleviate the suffering of these people has become a problem of immence dimensions. All the efforts to maintain the input—output price relationship in favour of the farmer are connected with this basic problem. Even though we do not intend to establish any relationship between increasing investment on modern agriculture and poverty in the lines of "Limits to Growth Hypothesis",[1] data provided by official sources recently, make us somewhat apprehensive of the long term growth prospects of Indian agriculture. Within a short period from 1973-74 to 1978-79, the year of record agricultural production in the country, the figures published by the Central Statistical Organisation (CSO) show that the share of agriculture in the total Net Domestic Product (NDP) at current prices fell from 49.8 per cent to 38.6 per cent. During the same period, the *per capita* income of agriculturists came down from 42.6 per cent to as low as 27 per cent. In absolute terms, the *per capita* income of agricultural workers rose by only 10.8 per cent from Rs. 623.8 to Rs. 691.4 whereas that of non-agriculturists went up by 75 per cent from Rs. 1,466 to Rs. 2,565 in the same period of time. From this analysis it is clear that agriculturists in India have become worse off than they were earlier, particularly in terms of purchasing power. This is evident from the fact that the general index (1970-71=100) of wholesale prices spiralled by 33 per cent from 139.7 in 1973-74 to Rs. 185.7 in 1978-79.

Incidentally, it was the period when chemical fertilisers suffered massive price increases due to global energy crisis and the government had to increase price and non-price incentives substantially. Whether the new agricultural strategy was responsible for this phenomenon is a debatable issue. Disregarding the causes, there does exist poverty in rural India and its magnitude cannot but tell upon the programmes to transform traditional agriculture with the high yielding varieties as the main plank. In other words, rural poverty is a basic constraint to agricultural advancement in India not only with economic consequences but also social and ethical consequences.

Most often, It is the small and marginal farmer that bears the brunt of uncertainties and constraints because they have insufficient or no surplus resources to tide over adverse situations how much short durated they may be. Even though India is endowed with very many natural resources to the envy of other countries it is not fortunate enough in having the most important natural resources that are vital for agriculture, land and fertiliser resources. Its irrigation potential is not extensive and water management non-optimal. In crop management technologically sound practices are not yet quite standardised. Fertiliser is the king pin of Indian agriculture; but difficulties arise from time to time to formulate proper fertiliser policies and recommendations. Heavy dependence on few sources of external supply for these inputs and infrastructural bottlenecks bring an element of uncertainty and fluctuation. Vagueness has been appearing in the application of conventional concept of return on investment made on agriculture. It may be noted that this uncertainty is all pervasive in Indian agriculture and at present uninsurable, and human control on farming conditions and operations appears less perfected. It is with this background we wish to examine the multitude of issues connected with fertiliser price environment and fertiliser use in India.

Basing on fertiliser price-consumption behaviour in India, it is often mentioned that price movements do not explain consumption changes fully. This is because under conditions of technological upliftment, the aggregate fertiliser consumption has a secular tendency to rise and the price movements of moderate magnitude are absorbed in the process. The technological upliftment is aided by the availability of an environment consisting of proper resource availabilities. Even though there is considerable amount of truth in the part played by technological advancements including farmer's technical knowledge in augmenting fertiliser use;[2] we wish to state that analysis of time series data running through sixties and seventies, through vast differences in uncertainties, levels of technology and international factors may give a distorted picture of the state of fertiliser use and its profitabilities in India.

It was only in the seventies that the Government used its supportive measures in a big way to protect the interests of the farmer. Besides, this, it is important to examine the fertiliser input — agricultural output price relationship to the farmer, particularly the efforts involved to maintain the relationship in a proper setting to understand the effects of changes in fertiliser price environment. The post-1970 period is thus the special significance to use since it would span a whole spectrum of time starting with the years when fertiliser prices were not considered as a major constraint, through years of sharp escalations, gradual drops culminating with recent sharp hike in most of the fertiliser prices.

Price Environment — Fertiliser Consumption

The important fertiliser materials to Indian agriculture in terms of their places in total fertiliser consumption and contribution to total nutrient use are Urea (46 per cent N), Single superphosphate (16 per cent P_2O_5), Diammonium Phosphate (18 46-0; can be taken as P_2O_5) and Muriate of Potash (60 per cent K_2O). In 1978-79 considered to be good climatically, Urea occupied 79.5 per cent of total nitrogenous fertiliser (straight) use and contributed 74.5 per cent of N to total N; Single superphosphate occupied 98.5 per cent of total P_2O_5 straight materials used and along with Diammonium Phosphate contributed 67 per cent of P_2O_5 nutrient and finally Muriate of Potash registered 98.4 per cent in total K_2O nutrient used.[3] This shows the relative importance of different nutrients to Indian agriculture. The Table 1 given below depicts the price changes that have come about in the three nutrients in terms of the above fertiliser materials and also annual growth rates in fertiliser consumption for the period 1971-72 to 1981-82 which includes the latest price revision affected on July 11, 1981. Table 2, shows the average

TABLE-1

FERTILISER PRICES IN TERMS OF NUTRIENTS AND GROWTH IN FERTILISER CONSUMPTION-1971-72 to 1981-82

Years	Maximum Retail Price of Nutrients through (Rs./kg)				Annual growth rate in consumption (%)
	Urea (46% N)	Diammonium Phosphate (18-46-0)	Single Super Phosphate (16% P_20_5)	Muriate of Potash (60% K_20)	
	N	P_20_5	P_20_5	K_20	$(N+P_20_5+K_20)$
1971-72	2·01	1.86	2.89	0 89	17.7
1972-73*	2.08	1.89	2.91	0.92	4.2
1973-74	2.28	2.01	2.99	1.13	2.5
1974-75*	4.35	4.83	5.35	2.05	-9.4
1975-76	4.02	4.52	5.42	1.97	12.5
1976-77	3.80	4.17	4.11	1.52	17.9
1977-78	3.59	3.49	3.10	1.34	25.6
1978-79	3.37	3.49	3.11	1.34	19.4
1979-80*	3.37	3.55	3.54	1.34	2.7
1980-81	4.35	4.93	4.71	1.83	6.1
1981-82	5.11	5.83	5.50	2.17	–

* Years of very bad weather for purposes of agricultural production

Sources: FAI, Fertiliser Statistics 1979-80, Annual Review of Fertiliser Consumption and Production 1980-81, Fertiliser News, Vol. 26, No. 7, July 1981.

TABLE-2

TREND OF AVERAGE IMPORT PRICES OF NUTRIENTS $(N+P_20_5+K_20)$ 1974-75 to 1980-81

Year	Import Price Rs. per tonne	+ % change over prev. year	Import Price Indices (1975-76 = 100)
1974-75	3,728	162.0	84.3
1975-76	4,421	18.6	100.0
1976-77	2,097	-52.6	47.4
1977-78	2,015	-3.9	45.6
1978-79	2,307	14.5	52.2
1979-80	2,765	19.8	62.5
1980-81	3,353	21.3	75.8

Source: FAI, Annual Review of Fertiliser Consumption and Production 1980-81, Fertiliser News, Vol. 26, No. 7 July 1981 import prices of the three primary nutrients.

The behaviour of fertiliser prices in India makes intersting reading. This phenomenon may be described broadly as domestic fertiliser prices reflecting the international prices. The time period chosen for analysis shows two such international transferes of price increases. The first one as well known occured in 1974-75 which had caused untold suffering to farmers particularly the small and marginal. Fortunately for the country, the world fertiliser market could not sustain it for long and prices fell subsequently. The second uptrend in domestic fertiliser prices which started in 1980-81 appears to be of dangerous consequences. Firstly, this trend has already surpassed the peak level reached in 1974-75 except in the case of P_2O_5 through single super phosphate, secondly the international fertiliser market is most-likely to harden and future price increases seem to be imminent and thirdly India's dependence on imports will be going up substantially in the years to come,

The year 1974-75 was peculiar to Indian agriculture simply because the twin uncertainties of weather and fertiliser prices played havoc with it. Not only the average import prices of nutrients went up by as much as 162 per cent over the previous year (Table 2), the maximum domestic retail prices per kg through the four important materials Ures, Diammonium Phosphate, Single Super phosphate and muriate of Potash sky rocketed by 90 per cent, 140 per cent, 115 per cent (in 1975-76) and 81 per cent respectively. The prices revised in 1981 in domestic market are 17 per cent, 20 per cent and 6 per cent higher in respect of Urea, Diammonium Sulphate and Muriate of Potash over 1974-75 price level*. The domestic prices underwent revision in 1980 as well by which they either equalled 1974-75 level or marginally exceded it. The 1974-75 price hike and tremendous impact on fertiliser consumption in India.

There can be no two opinions about it. Even though adverse weather also played its part, the substantial fall in consumption to the extent of registering negative rate of growth (–9.4 per cent) has been affected largly by the price environment. The 6.1 per cent increase in consumption in 1980-81, the year of starting the second steep increase in fartiliser prices, was much lower than the official target of 15.6 per cent inspite of improved weather conditions after the severe drought of 1979-80. The fertiliser industry in India has expressed pessimism over the consumption pattern in 1981-82 because of adverse changes in input-output price relationships to the farmer mainly on account of price hike affected on 11 th July 1981. Besides the mid seventies experience of weather — fertiliser price combined attack on fertiliser consumption, we have the example of strong uptrend in fertiliser prices starting from 1980. Estimation of the future trend of fertiliser prices has become almost an impossibility now-a-days because these are mostly determined by factors on which neither the Indian fertiliser industry nor the government of India has sufficient control. There is every probability of these prices going up in future or maintain strong uptrend rather than stagnate much less to maintain downtrend. With the upward movement of these prices, necessity occurs to came to the farmer's rescue by various supportive measures. The changes in fertiliser price environment, particularly the one way relationship between international fertiliser environment and domestic fertiliser policies could become an important determinent of fertiliser use and development of Indian agriculture.

Hence, while examining the relationship between price environment and fertiliser offtake in India, it is important to bear in mind the highly inadequate resource endowment position and the indefinite necessity of importation. Any underestimation of these factors may lead to dire conseqences in the long run.

Profitability of Fertiliser use in India

The structure of farming in India is determined to a large extent by the resource endowment of individual holdings. The preponderance of rural poverty coupled with small and marginal holdings[4] make these farmers lack sufficient resources to invest in yield increasing modern inputs irrespective of their cost. Rise in fertiliser prices means that to retain the same level of consumption farmers necessarily have to incur more expenses on fertilisers. Given the economic status of the farmer, his propensity to use fertilisers depends on the cost of it and the price he gets for the produce. The output responses of crops also seem to play some part in it. From the farmer's point of view, lower input cost and higher output price would provide him with necessary incentive to move towards optimal utilisation of this input. Hence, fertiliser prices by themselves may not be of much relevance to the farmer in determining the economies of their application. The crucial thing is the input-output price relationship. It has been the constant endeavour of the government of India to improve the relationship in favour of the farmer to motivate him to adopt modern farming practices and also to increase fertiliser use. Due to the preponderance of rural poverty coupled with small and marginal holdings, maintenance of input-output price relationship in favour of the farmer has been gradually becoming a difficult task to accomplish. Output prices as mentioned already, are generally increased after the initial impact of input price increases has been felt. Mechanism to monitor credit utilisation by the small and marginal farmers is highly inadequate. Disregarding these factors which are naturally associated with poverty, fertiliser price increases since mid seventies to be specific, did not enable profitability of fertiliser use to increase inspite of subsidisation and administrative price supports.

The Fertiliser Association of India, in their annual reviews of fertiliser consumption and production, publishes the relative economics of fertiliser application on selected crops. As their analysis is found to be suitable for explaining the changes in input-output price relationships, our observations are based on it. The FAI computations takes the form of two indicators namely (1) physical return, which shows the relationship between kg. of output required to buy kg. of nutrient and (2) financial return, which is the gross monetary return a farmer gets from every rupee invested in fertilisers. Considering the fact that agricultural sector in India is substantially monetised and investment decisions are generally based on the commercial profitability criterion, the latter indicator relating to profitability of fertiliser use would be of much relevance to analyse the changes in input output price relationships to the farmer over a period of time.

---

* With the increase in fertiliser prices, the Indian farmer first cuts down the consumption of K_2O followed by P_2O_5 and N in the order of their preference to him.

Computation of gross financial returns for the sum total of Indian agriculture is a task which can hardly be done mainly due to the following reasons. Firstly, the price of fertiliser is the same for all crops but output prices of different crops are differently determined. Some crops have the support of procurement prices while others have the market prices. Secondly, technological improvements can raise the production functions of individual crops. Such improvements for all crops cannot be depicted. Thirdly, the impact of changes in input-output price relationship on small farmers need to be taken into account. Pooling of this information for different crops, crop varieties, agro-climatic zones etc. is a gigantic task in itself. Any comprehensive assessment of this nature certainly needs a large number of quantitative exercises for filling up the data gaps. Even then, comprehensive assessment of the problem is doubtful. This being the case, the crops wheat and paddy have been selected to represent Indian agriculture for the purpose of fertiliser use profitability for the following reasons. Production wise and area wise these two crops occupy an indomitable position consuming a substantial quantity of fertilisers.[5] Both the crops are being grown in India with technologically improved methods of farming. And finally, small and semi-medium holdings account for the largest part of area under paddy and wheat[6].

Table-3 depicts the profitability of fertiliser use in India through N based on urea, P_2O_5 based on single super phosphate (SSP),

TABLE-3

PROFITABILITY OF FERTILISER USE ON PADDY AND WHEAT IN INDIA

Particulars	1971-72	1972-73	1973-74	1974-75	1975-76	16-3-76	8-2-77	14-4-77	12-10-77	11-4-78	29-9-78	23-1-79	10-3-79	21-9-79	8-6-80
A. Procurement prices Rs. per kg.															
Paddy	0.53	0.55	0.70	0.74	0.74	0.74	0.74	0.74	0.77	0.77	0.85	0.85	0.85	0.95	0.95
Wheat	0.76	0.76	0.76	1.05	1.05	1.05	1.05	1.10	1.10	1.125	1.125	1.125	1.125	1.15	1.17
B. *Gross Financial Return on Every Rupee invested on Fertiliser (Rs)*															
1. Return from Nutrient N through Urea	2.64	2.64	3.68	2.04	2.21	2.34	2.47	2.47	2.74	2.74	3.03	3.03	3.24	3.62	2.62
2. Return from Nutrient P_2O_5 - based on SSP	1.10 to 0.90	1.13 to 0.96	1.64 to 1.38	0.97 to 0.87	0.95 to 0.73	1.26 to 1.06	1.68 to 1.28	1.67 to 1.28	1.74 to 1.33	1.73 to 1.32	1.91 to 1.45	1.94 to 1.44	1.94 to 1.44	1.88 to 1.45	1.41 to 1.14
– based on DAP	1.71	1.75	2.44	1.07	1.15	1.24	1.52	1.52	1.54	1.54	1.70	1.70	1.68	1.87	1.35
– based on complexes	1.29 to 1.07	1.26 to 0.95	1.61 to 1.05	0.93 to 0.52	0.82 to 0.54	1.01 to 0.82	1.09 to 0.91	1.09 to 0.91	1.17 to 0.91	1.17 to 0.91	1.29 to 1.00	1.29 to 1.00	1.42 to 1.19	1.59 to 1.34	1.14 to 0.95
3. Return from Nutrient K_2O	2.38	2.39	3.10	1.80	2.02 to 1.88	2.43	2.76	2.76	2.87	2.87	3.17	3.17	3.17	3.54	2.60
Wheat															
1. Return from Nutrient N through urea	3.78	3.65	4.00	2.90	3.13	3.32	3.51	3.68	3.92	4.01	4.01	4.01	4,29	4.38	3.23
2. Return from Nutrient P_2O_5 based on SSP	1.58 to 1.29	1.57 to 1,33	1.78 to 1.50	1.38 to 1.24	1.35 to 1.03	1.79 to 1.50	2.39 to 1.81	2.48 to 1.91	2.48 to 1.91	2.53 to 1.93	2.53 to 1.93	2.57 to 1.90	2.57 to 1.90	2.27 to 1.75	1.74 to 1.41
– based on complexes	1.85 to 1.54	1.75 to 1.31	1.74 to 1.14	1.31 to 0.74	1.17 to 0.77	1.43 to 1.16	1.54 to 1.28	1.61 to 1.35	1.67 to 1.30	1.71 to 1.33	1.71 to 1.33	1.71 to 1.33	1.88 to 1.58	1.93 to 1.62	1.41 to 1.17
Return from Nutrient K_2O	3.42	3.30	3.36	2.56	2.87 to 2.66	3.45	3.92	4.10	4.10	4.20	4.20	4.20	4.20	4.29	3.20

Sources:- FAI, Annual Review of Fertiliser Consumption and Production 1980-81 and earlier Reviews.

Diammonium Phosphate (DAP) and complexes and K_20 based on Muriate of Potash (MOP). The two crops taken into account are paddy and wheat. The output prices are represented by procurement prices fixed by the government from time to time. Because of wide regional variations, actual open market prices cannot be considered. Regarding incremental output responses of these crops, the Fertiliser Association of India assumes $N=1=$, $P_20_5=6$ and $K_20=4$kgs of grain for 1971-72 and 1972-73 $N=12$, $P_20_5=7$ and $K_20=5$ kgs of grain for rest of the years. The average output response of the above two works out 6.6 and 8 0 kgs of grain which is lessthan the common nutriant grain ratio of 1:10. To aviod further deffusion of the present discussion, the FAI response ratios are retained by us as they seem to be not over ambitious. Even if the response ratios are modified, the results are not likely to be radically different because it is the relative profitability of fertilser application that is important for us rather than the absolute one.

The Table amply demonstrates the variations in input-output price relationships mainly as a result of variations of prices in fertiliser exporting countries. It is sometimes suggested that the increase in input prices should not be diretly related to output prices to assess the profitability of fertiliser use as a variety of factors influence agricultural output. But, the position of chemical fertilisers is entirely different from other agricultural inputs both manufactured and farm supplied mainly on account of the strong backward linkages it creastes from the agricultural sector in India leading to large scale dependence on imports. Hence, there is considerable justification to base one's assessment of future growth prospects of Indian agriculture on chemical fertiliser. We have already examined the impact of 1974-75 global energy crisis on fertiliser consumption in India. As a result of the global crisis, the gross financial returns from fertiliser application deteriorated with disastrous results.

The gross financial returns for paddy, for instance, on every rupee invested in nutrient N through Urea fell from 3.68 in 1973-74 to Rs. 2.04 in 1974-75 a fall of 44.6 per cent in a single year as a result of the global crisis. Only in 1978, the financial returns could reach Rs. 3/-mark. On 21-9-79, the indicator reached Rs. 3.62, the highest recorded so far. Similarly, the returns on P_20_5 based on SSP, DAP and complex fell by 40.8 per cent, 56 per cent and 42 per cent respectively and only by 1977-78 the position could recover. But, the steep increase in fertiliser prices affected on 8-6-80 further brought down the return on N to Rs. 2.62 inspite of about 28 per cent increase in paddy procurement prices to 1974-75 level. This steep fall in profitability is important to take note of in view of extreme necessity of nitrogenous fertilisers to paddy crop. The profitability on other nutrients had also been considerably affected.

The gross financial returns for wheat also showed a similar trend except on P_20_5 based on DAP. For this material the pre-global crisis profitability level was hardly reached. This is very important to take note of. Even for complex fertilisers, the pre-oil crisis level was reached only in 1979, one year later than that of paddy. As things were standing, price revisions were once again affected on July 11th 1981 mainly to bring parity between international and domestic fertiliser prices.[7] This price increase, it is feared may have adverse impact on the input-output price relationships with considerable burden on the average Indian farmer. Similarly, chemical fertiliser may therefore become relatively unattractive and actual consumption may not grow rapidly enough to raise crop output inspite of tremendous agricultural production potential India has for the purpose. And, it is rather difficult to increase the levels of procurement prices and subsidisation on par with fertiliser price increases. After all, procurement price increase follow input price increases after some time lag and only after the produce is ready, farmer can take advantage of procurement prices. In view of fertiliser price uncertainties, procurement as such would have limited impact to lessen the burden of fertiliser price increases particularly on small farmers. To remedy the situation on a long term basis, systematic development and utilisation of renewable resource inputs is being advocated.

Another important conclusion that emerges from the Table 3 is the continuous presence of unfavourable input-output price relationship for paddy cultivation as compared to wheat cultivation. Throughout the period, when clouds of uncertainty were raining havoc in mid seventies down to the recent price increases, the ratio has been consistently in favour of wheat cultivator. The relatively high procurement price of wheat is well known and this has made the ratio favourable to wheat cultivation. This artifical maintenance of profitability may be an important cause for the success achieved by wheat cultivator under new agricultural strategy in India.

It is thus evident in no uncertain terms that fertiliser price increases give rise to a series of measure to protect farmer's interests. These protective measures by themselves need lot of insight into the nature of input cost escalations to use them in time and in appropriate proportions with other strategies with similar objectives. So, while discussing the nature of relationship between fertiliser prices and consumption, examination of efforts that are necessary to maintain the level of consumption would be of special significant to us.

Thoughts on Supportive Measures

The incentives to agricultural development can be classified into support measures and subsidies. Though crop procurement prices increased considerably to maintain the input-output ratio at a reasonable level fertiliser price escalations brought down the profitability of fertiliser use in India. For example, as can be seen from the table, procurement prices of paddy and wheat per kg went up by 79.2 per cent and 54 per cent respectively in the period 1971-72 to 8-6-80. These were further increased before the latest fertiliser price revision came into force. Despite these increases in procurement prices, the profitability of paddy and wheat cultivation showed little change over a period of ten years which makes one rather sceptical of the long term growth prospects of the present agricultural technology in India. In other words, the procurement price policy appears to have become a purely defensive mechanism against international fertiliser price environment and its limited effect to improve the input-output price relationship tells volumes of the relative strengths of forces that are internal and external to the country.

Subsidies, on the other hand, are designed to compensate for the high cost of production. Subsidies given to agricultural inputs relatively more beneficial than price supports especially to small and marginal farmers because the input price increase is immediately compensated where as support prices are likely to benefit large mostly large farmers with marketable surplus.. The basic objective behind fertiliser subsidy in India is based on the above rationality. Fertiliser subsidies fall under four different categories; given under retention price scheme, on imported fertilisers to make them economically viable to Indian farmer, on indigenous phosphatic fertilisers and also on freight. In addition, subsidies are also given under certain developmental programmes like small farm development agency (SFDA) and Draught prone Area Programme (DPAP) etc. Under the Programmes of Integrated Dryland Agriculture Development Agency, subsidies are given at 50 per cent of fertilisers except on nitrogenous fertilisers.

An important objective of fertiliser subsidy, as mentioned above, is to induce small and marginal farmers to increase its use. In this connection, it may be essential to bear in mind that excepting the ones given to reach a target group, most of the subsidies are included in the general retail price. Subsidy on imported fertilisers for instance is included in the market retail price. As such, the better of farmer is made better by both price supports and subsidisation on inevitable consequence of the new agricultural strategy. Subsidy programmes are difficult to terminate or phase out when the cost of this input is on the increase in developing countries where rural poverty prevails. It is the only measure that can be thought of at present to manipulate input retail prices inspite of its inherent drawbacks. The point should not be missed that altogether abolition of fertiliser subsidies cannot be thought of in the case of India as a substantial part of fertilisers consumed are imported and it will automatically mean a substantial amount of subsidy to make it economically viable input. To take the case of subsidy on imported fertilisers it may be of interest to note that the sales of imported Urea at current domestic prices in 1978 has meant a subsidy of over Rs. 700/- *per tonne and* that of Muriate of Potash Rs. 550/- per tonne[8].

Table-4 given below gives us some insight into the growth in subsidies in the period 1975-76 to 1979-80. According to the table, the quentum of budgetary subsidies nearly doubled from Rs. 947 crores in 1976-77 to Rs. 1,831 crores in 1979-80. The food subsidy increased from Rs. 506 crores to Rs. 600 crores and the fertiliser subsidy from mere Rs. 60 crores to Rs. 643 crores. Of the increase in total subsidies by. Rs. 884 crores in the period 1976-77 to 1979-80 the additional food subsidy accounted for Rs. 94 crores (10 per cent) and the additional fertiliser subsidy for Rs. 583 crores or about 60 per cent. In other words, the ratio of fertiliser subsidy to total subsidy which was 6.3 per cent in 1976-77 increased to a staggering figure of 35 per cent in 1979-80. In the same period, food subsidy has actually come down from 53 per cent to 33 per cent. Though the use of fertiliser subsidy provides the required economic incentives, it can also result in larger budgetary deficits and inflation when its quantum goes beyond the capacity of economy to absorb. Strong opinions have been emerging that the day will soon come when the consumer has to bear the brunt of fertiliser price increases in India. In its annual economic survey 1979-80[9] the government of India rightly attributes the rapid increase in fertiliser consumption in India in recent years to downward revisions affected in fertiliser prices during 1975-76 and by maintaining them at the reduced level despite appreciable increase in their cost of production and imports.

The survey adds that this increase in fertiliser consumption has led to increasing burden of subsidy on the one hand and higher import bill on the other. The survey opines that low fertiliser supply price could not be maintained when the cost of other parameters were going up. These statements of reality in such an important official document clearly shows the frustrations felt at times by the government over the policy of artificially maintaining the input-output price relationship. If the process of supportive measures chasing the fertiliser prices continues indefinitely as it is most likely to do so due to reasons discussed already the price of new agricultural strategy in India might reach prohibitive levels in near future. Farmers agitations for higher procurement prices and other powerful forces might in future bring downward regidity to price and non-price incentives (Procurement prices, subsidies etc.) for Indian Agriculture unless these are offered for a specific purpose with powerful will behind them.

No doubt, favourable input-output price relationship should be of prime concern of the policy maker. But, too much emphasis to price-non-price incentives along may be self-defeating in the long run. What the country needs may be a different level of agricultural input technology which apart from

TABLE-4

GROWTH IN SUBSIDIES 1975-76 to 1979-80

(Rs. crores)

	1975-76	1976-77	1977-78	1978-79 (R.E.)	1979-80 (R.E.)
1. Food subsidy	250	506	480	570	600
2. Fertiliser subsidy	N.A.	60*	266	365	643
3. Subsidy on Exports	149	269	327	414	363
4. Others	71	112	214	155	225
Total	470*	947*	1287	1504	1831

*Does not include loss on imported fertilisers.

Source : Government of India, The Economic Survey, 1979-80, p 38 maximising the yield increasing properties of chemical fertilisers, should popularise renewable methods like organic farming. By this way, growth in resources involved in different types of price supports and subsidies may be checked, or at least, the subordination of these incentives to forces external to the country may be minimised.

A view has been gaining prominence now-a-days that through crop insurance on a wider scale farmers risks may be lessened. Whether the farmer takes to risk or an institution-unless conditions are created whereby risks are predictable and measurable with approved methods, no insurance scheme can succeed except by fits and starts. There is no substitute for improving the base of farming in India with optimal utilisation of indigenously avilable resources and by technological means. By this way, unpredictable and unmeasurable risks originating in some distant land may be lessened and an agricultural environment fit for institutional acceptance of risk may be created.

Fertiliser Consumption in India

With the development of the new agricultural strategy in India, it was felt necessary to develop an input technology for determining the fertiliser demand. The fertiliser recommendations have thus become part and parcel of the package of practices to assist the farmer to indulge in profitable farming. These recommendations are being issued by the State Agricultural Departments for individual crops aiming at giving all farmers a reasonable return on money spent on fertilisers[10]. In otherwords, the recommended doses are meant to give a reasonable return to the farmer on the cost incurred in fertilisers but not solely to optimise fertiliser use and crop output. The difficulties associated with making appropriate fertiliser recommendations are varied and a comprehensive survey of the theoritical and empirical verifications of all of them is beyond the scope of the present paper. The area on which we would like to throw light is connected with the constraints arising from fertiliser cost increases in determining fertiliser doses and the deviations between recommendations and actual consumption.

The knowledge about crop output response to incremental fertiliser use forms the basis for the economic analysis of fertiliser use at the farm level which in turn forms the basis for fertiliser policy formulation at the national level and fertiliser recommendations at the state level. The crop output response is determined by a large number of factors including crop, soil fertility, farm management, type of fertiliser material used, climatic factors and avilability of proper irrigation facilities. Given other factors, the response function depends on the fertility status of soil.

Owing to this reason, fertiliser recommendations give prime importance to soil fertility to base their input doses. Supposing, the supply of fertiliser is perfectly elastic to demand at a price that would continuously create a favourable input-output price relationship or if the price of fertiliser is so low that demand is inelastic to price variations, in these situations fertiliser use and hence crop output can be optimised. Then, technical optimum and economic optimum become almost synanymous because there is no limiting factor on fertiliser use other than the output response. The soil test crop response correlation centres[11] situated in different places in India prepare equations based on targetted yields of selected crops on regional basis. Besides agro-economic uses, these cropwise equations may be important to venturesome farmers to develop improved methods of farming. But a situation in which technical as well as economic optima of fertiliser use may coincide is seldom found where modern agriculture exists. The case of Indian agriculture as being examined by us is illustrative of diverse issues relation to economics of fertiliser use mainly arising from the inadequate fertiliser resource endowment position necessitating recommendations from time to time on the judicious use of the three nutrients.

Fertiliser recommendations may be technically differentiated into the following categories: 1. Recommendations for maximum profit from hectare on fertilisers, 2. For maximum profit per rupee investment on fertiliser, 3. For a given ratio of profit to investment, 4. For conditions of shortage based on the principle of targetted yields of crops and 5. For profit consistent with the needs for maintenance of soil fertility based on the principle of targetted yields[12]. The recommendations state governments actually issue do take into account not only the fertility status of soils and targetted yields but also financial returns on every rupee invested on fertilisers. The above two approaches seem to be pulling in different directions and it becomes necessary to strike a balance between the two by choosing a proper yield target and fertiliser dose. As noted already, yields of a number of crops in India are far below the National demonstrations and a substantial improvements may not meterialise at the present level of fertiliser use. To compensate any increase in fertiliser prices, it becomes inevitably necessary to recommend doses that create favourable input-output price relationships to the farmer.

The present uptrend of fertiliser prices and the strong likelihood of future increases invariably put pressure on official agencies in India to devise appropriate recommendations to maintain farm profitability in a proper setting. In view of the prevailing situation in India and the world, a number of experiments are being conducted in India in order to find out from time to time the level of agricultural output under different levels of fertiliser constraints and to study the extent to which these levels could be reduced without adpreciable decrease in total grain output. Such experiments have become necessary to assist the farmer in his efforts to save on increases on fertiliser cost by issuing appropriate fertiliser recommendations.

The experiments initiated under the All India Coordinated Agronomic Research Project of the Indian Council of Aricultural Research (ICAR) may be cited as an example in this regard. If the fluctuations and increases in fertiliser nutrient prices continue unabted into the future (they are most likely to do so due to growing import dominance), it may be reasonably expected that the main purpose of chemical fertiliser use to increase and maintain yields may be subordinated to saving in fertiliser cost at the farm level. This development, we fear, might

TABLE-5

Deviations between Fertiliser Requirements and Actual Consumption of N, P_2O_5 and K_2O in the State of Andhra Pradesh 1973-74 to 1978-79.

'000 Tonnes

Year	Requirement			Actual consumption		
	N	P_2O_5	K_2O	N	P_2O_5	K_2O
1973-74	157·0	110.0	54.0	169.6	82.0	29.2
1974-75	298.6	104.5	51.1	228.1	54 2	24.3
1975-76	425.2	142.4	62.3	275.6	61.8	20.2
1976-77	369.7	112.0	37.0	290.8	80.4	23.2
1977-78	387.0	113.0	33.0	351.7	133.2	36.3
1978-79	434.5	173,0	49.0	413.9	143.9	42.7

Sources : FAI, Southern Region, 'Agricultural and Fertiliser Statistics', 1977 to 1979 issues.

give rise to serious implications in the long run unless nutrients are made available at a price suitable for profitable farming.

It is evident that fertiliser consumption in India has consistently fallen short of official recommendations thereby creating discrepancies between official targets and actual consumption[13]. Sometimes actual consumption falls short of official targets by as much as 50 per cent in the country. Because fertiliser recommendations are area specific, examination of data provided for the country as a whole may throw insufficient light on the phenomenon. In view of this state level data is thought to be more relevant to depict the magnitude of variations between requirment and actual consumption. The Table-5 shows these variations in the state of Andhra Pradesh for the period 1973-74 to 1978-79. The position of Andhra Pradesh in the agricultural map of India is well marked and any introduction about the state may sound superfluous here.

Not only in respect of phosphatic and potassic nutrients but also in respect of nitrogen which is a vital ingredient of paddy cultivation, the deviations were very prominent in the states. Data relating to a number of states and union territories in India show continued existence of this discrepancy and one cannot but get the impression that fertiliser recommendations are of no avail to the Indian farmer. A study carried out by the Punjab Agricultural University in Ludhiana district indicated that only 4 per cent who had got their soils tested implemented fertiliser recommendations fully, while 48 per cent implemented them partially and the remaining 48 per cent did not pay any attention to the recommendations.

The major reasons for non-implementation were identified as delays in issuing recommendations, lack of credibility and even incorrect sampling[14]. Even though this observation may not truely reflect the state of affairs in other areas, the available data amply corroborates the contention that Indian farmer pays scant attention to the recommendations. It is natural to the farmer to demand tailor made recommendations from time to time for maximising his profit and production in sequence of priority.

What would be of particular interest to him are those of economic optimum combination of nutrients so that his returns on money spent on fertilisers are maximised. Expectations in farmers mind would tell him whether to go beyond the level determined by different factors although 100-120 kg/ha of nutrients can be applied to high yielding varieties to reach technical optimum. As the Table shows, the realised fertliser consumption has been much below the recommended doses and nobody knows precisely whether these doses reflect real economic optima to the individual farmers in India. If the determination of economic optima is taken as a part in the sum total of man's decision making process, then, it appears that different fertiliser recommendations may be required suitable for diverse situation in India. The small and marginal farmers may need different recommendations and also recommendations specifically for farming for self consumption and for marketable surplus.

The most interesting question that we can pose at this juncture is, could fertiliser recommendations be issued in future in tune with the natural resource constraints affecting Indian agriculture. To what extent substitution and economising processes could overcome cost escalations of fertilisers. Basing on our previous observations it appears that future recommendations might be giving topmost priority to most judicious use of the chemical nutrients so that farm expenditure on these inputs could be saved to the extent possible. This trend of economising fertiliser use has already started in India as an inevitable consequence of import dominance, The fertiliser recommendations which are basically single crop oriented are now being developed for the cropping system as a whole. This systems approach to fertiliser use includes substantial application of organic manure for the sake of optimum nitrogen economy, These recommendations, it is hoped, lead not only to judicious and economic use of chemical nutrients but also optimal utiiisation of renewable organic material. The recent developments thus indicate the realisation at various quarters that the time has come to supplement to chemical fertilisers by organic nutrients. Whether the Indian farmer will be attaching any importance to the recommendations in future, only time can tell.

Potential Fertiliser Consumption Needs

An important part in farming should be provision of nutrients to the soil to maintain its inherent fertility. Insufficient input of nutrients in utter disregard of the uptake by crops leads to gradual impoverishment of the soil and in this way once highly fertile piece of land may in course of time become marginal. The once thought indestructible powers of the soil may become destructible in the strict sense of the term.

A number of studies indicate the overall fertility of crop land in many countries is declining due to addition of marginal land to the crop land base, insufficient use of nutrients and cumulative loss of top soil. And the net effect of limited availablity of arable land and that being lost to urbanisation and communication system is a reduction in the average fertility. Hence, it becomes very important to maintain the fertility status of existing cropland in a long term perspective. No doubt, some positive research has been going on to devise better methods of nutrient supply basing on renewable resources. The dichotamy between technical and economic optima of fertiliser use and that of recommended and actual use shows that due to a number of reasons Indian farmer is unable to enhance fertiliser use per unit area comparable to other countries. In other words, he is unable or reluctant to provide the required nutrients to the soil thereby creating an imbalance between nutrients input and uptake[15].

This imbalance, if permitted unabated, may ultimately lead to creation of marginal lands due to loss of soil fertility. Even though depletion of soil fertility is not confined to India alone, insufficient input of nutrients has to be seen in view of the agricultural production potential of India, growing demand for food and various constraints affecting chemical fertiliser use. Any artifical reduction in fertiliser recommendations or actual use to optimise financial returns however important they may be to the farmer, certainly leads to depletion of soil fertility which may widen the gap between production potential and actual yield. The marginal land as commonly known needs more nutrients to give better yields.

The most delicate part is to strike a balance between the profitability of fertiliser use in the short run and production potential cum maintenance of soil fertility in the long run. The success of this sort of strategy in India is likely to depend to a large extent on the international environment, cost of fertiliser and the extent these can be absorbed by subsidisation and administrative price fixation. In all these respects, the present environment and future psospects appear to be not favourable to overcome price constraints and opt for enhanced fertiliser use.

Besides the recurring imbalance between fertiliser input and uptake in India, another phenomenon of far reaching importance is low organic content of Indian soils and its rapid decomposition. The prestigeous National Commission on Agriculture in India mentions that due to inadequate organic matter content of the soil, even by additing substantial quantity of fertilisers, full use of the nutrients is not bering made. This is a hazardous trend in the sense that non-application of organic manure in the face of continuous application of chemical fertilisers would fail to build up good soil physical properties and reduce fertiliser use efficiency[16]. A high dose of nitrogenous fertiliser which the Indian farmer is known to apply is detrimental to yield, but in the presence of organic matter the effect is said to be no longer unfavourable[17]. It is now being admitted that indiscriminate use of chemical fertilifers, insecticides and heavy machinery are wearing out and compacting the soil making ploughing difficult and the ground so compact that rain water can hardly penetrate it.

On the other hand, there are several reports to suggest that higher level of organic matter in the soils helps to improve aggregate stability water holding capacity, hydraulic conductivity and available moisture content in the soil.[18] The contemporary opinion is almost unanimous that judicious combination of organic manure and chemical fertilisers would help to maintain the nutritional balance of the soil and improve soil fertility and agricultural yields in the long run. These observations indicate that unless there is sufficient organic content in the soil, plants cannot utilise chemical fertilisers completely.

It is rather unfortunate that agricultural growth strategies in India and a number of other countries are production and short term oriented to overcome food problems in the shortest possible time. While doing so, these strategies pay little attention to the problems like depletion of soil fertility and price to be paid to produce agricultural output in future. The importance of organic matter in the soil even to utilise the input of chemical fertilises is seldom realised in a constructive way. *The sudden transformation of chemical fertiliser into a high cost input has come like a blessing in disguise in the sense that only now, organic manure is being advocated as an integral part of the new agricultural strategy in India.*

The projections for various agricultural commodities in India, for instance, are mostly extrapolations of the present state of affairs. The projections made upto 2000 and 2025 A. D. covering fertiliser and other aspects assume that either there will be no major constraints to fertiliser use in India or these constraints could be absorbed. And they also seem to assume that there will not be any deterioration in soil fertility nor improper utilisation of chemical fertilisers due to inadequate input of organic nutrients. The consumption estimates for 2000 A. D. say that fertiliser consumption should be order of 14 to 16 million tonnes of which 10 to 12 million tonnes would be required for foodgrain crops.

In another estimate, the additional foodgrain production by virtue of fertilisers alone is put at 126 million tonnes by the end of this century.[19] The assumption of statusquo which is implied in the projections appears to be dangerous to base long term strategies unless economically viable fertiliser reserves are found in India. It would be extremely important now to take into account the potential sources of organic matter that is lying dormant in India into the long term projections to base future strategies.

National waste products are the most important source of organic matter. These products include a host of materials such as cattleshed waste, sugarcane bagasse and trash, stubble, weed, straw, night soil, town refuse, sewage, sludge, slaughter house waste, lac and wood wastes, poultry litter and bird droppings, oil cakes, fruits and vegetable processing waste, pressmud, saw dust, rice husk and bran, tobacco waste, seed waste, forest litter, marine algae and sea weeds, water hyacinth, tank silt, jute sticks etc.[20] This list includes almost all the natural products that are available as wastes. It is true that appropriate procedures for collecting some of these sources of organic matter and technologies for efficient utilisation have to be perfected. According to an IARI survey, the annual excretion of wet dung from cattle and buffaloes in India amounted to 1002.587 million tonnes and the production of urine totalled 658.901 million tonnes. The enormous potential of these organic resources including urban wastes which are available aplenty can provide 3.08 million tonnes of nitrogen, 1.22 million tonnes of phosphorus and 2.06 million tonnes of Potash[21].

It was also estimated that about 113 million tonnes of plant nutrients were potentially available in developing countries in 1971 in the form of organic residues which is about 8 times to the 13.5 million tonnes of fertilisers used in the same countries in 1970-71.[22] The same study adds that the greater use of organic plant nutrients would be especially more beneficial in the tropical areas where organic matter is an essential component of soil fertility and stability.

Another alternative which may be based on surer foundation is utilisation of agricultural wastes. This potential source of organic matter would depend on the extent of agricultural production and this way it would be easier to quantify the amount of organic matter available. The quantity of waste material varies with each crop. Unfortunately, the presently available studies on the quantity of vegetable material produced with each crop are very few and not comparable with each other. On account of this, we have to rely on the Report of the Working Group on energy policy which provides estimates of agricultural wastes that might have become available in the country in 1975-76[23]. Against the total availability of around 200 million tonnes, consumption of agricultural waste as fuel might be 41 million tonnes according to the above report[24].

There are several other competing uses for agricultural waste as fodder for household animals as roofing material and as organic matter for compost making. The allocation of these wastes among different uses depends on the availability of alternative materials the price at which they are available and of course customs and habits. But it is seen that wherever agricultural waste is invariably used as for instance, the use of bagasse in sugar khandasari, Jaggery industries etc. and there is considerable wastage as well. It is difficult on the basis of available level of information to estimate the relative shares of agricultural waste that is being put to various uses. As the above report opines, steady increase in agricultural production can be expected to increase the total quantity of agricultural waste available and a part of it can be used as organic material for nutrient use.

The natural corollary after seeing the above analysis would be the apprehension whether appropriate procedures for collecting these resources could be made with economically viable cost. It is precisely in this area that further research is required to prepare cost minimising procedures on a long term basis. Nothing can be more optimal than basing man's existence to the extent possible on a circular flow mechanism in which the input resources would be his waste products. The time has come to take the organic resource potential of India as future sources of nutrient supply along with chemical nutrients. If sustained efforts are directed, a substantial part of the organic materials could be diverted for nutrient purposes by the end of this century. It is true that some initial investment for developing appropriate technologies for collection and efficient utilisation of agricultural waste will be necessary.

In this connection, it should be borne in mind that the Indian farmer has been quite familiar with the use of organic fertiliser, crop rotation methods etc., for centuries and what we need now is to awaken a part of his old self in retaining and expanding the use of organic material in combination with chemical fertilisers by utilising the unutilised resources available for the purpose. This is particularly important to Indian agriculture than leaving the long term growth strategy on the implicit assumption that there will not be any major constraints to chemical fertilisers use in India. Our observations in the present paper show that chemical fertilisers badly needs some supplementation if not substitution by indigenously available resources to release Indian agriculture from the clutches of single input predominance.

REFERENCES

1. Donella H. Meadows, Dennis Meadows, Jorgen Rangers and William Behrans, "The Limits to Growth", New American Library, New York, 1974 Chapters I, II.

2. Dharam Narain, "Groth of Productivity in Indian Agriculture", Indian Journal of Agricultural Economics, Vol. 32, No. 1, Jan-Mar. 1977.

3. FAI, Fertiliser Ststistics 1979-80, P. 1-71.

4. Government of India, Ministry of Agriculture and Irrigation "All India Report on Agricultural Census 1970–71" p. 78.

5. The total quantity of fertilisers used on wheat and paddy works out to more than 50 per cent of the total quantity used in 1970-71 according to the study of the National Council of Applied Economic Research and the FAI.

6. Government of India, "All India Report on Agricultural Census", Ibid pp 78-79.

7. Table 1. for price changes in important fertiliser materials.

8. FAI, Annual Review of Fertiliser Production and Consumption 1979-80 and Fertiliser Statistics 1979-80.

9. Government of India, "The Economic Survey 1979-80", p. 9.

10. FAI, "Handbook on Fertiliser Usage" New Delhi 1980.

11. Refer-FAI, Fertiliser Statistics 1979-80 pp 1-77 to 1-206.

12. B. Ramamurthy, Emeritus Scientist and Projeci Coordinator, IARI, "Making Fertiliser Recommendations based on Soil Tests", in FAI, 'Workshop on Soil Testing', New Delhi, 1975, pp 39-47.

13. Refer-FAI, Fertiliser Statistics 1979-80, Table 13.01, P 1-245

14. FAI, "Workshop on Soil Testing", New Delhi, 1975, P. 66.

15. Refer-National Commission on Agriculture Part X, Inputs, Table 48.8, P 64 and Appendix 48.1 P 131.

16. National Commission on Agriculture, Part X, Ibid P. 90.

17. National Commission, Ibid, P, 91.

18. G. Rangaswamy, "FAI-IFDEC Seminar on Trends in Fertiliser Consumption and Production", The Fertiliser Association of India, New Delhi, 1977, P AGR 1/11-8.

19. National Commmission on Agriculture, Part III.

20. National Commission Part X, Inputs, P. 91.

21. E. P. S. Goel, K. B. Singh and K. P. Singh, "Indian Journal of Animal Sciences", Vol. 43, 671, 1973.

22. FAI, "The State of Food and Agriculture 1977", Rome, 1978, P 3/45.

23. Government of India, Planning Commission "Report of the Working Group on Energy Policy", New Delhi, 1979, P27.

24. Report of the Working Group on Energy Policy, Table 2.5, P. 5.

Growing External Debt Burden in India: 1950-51 to 1979-80

By **Neela Mukherjee** *

This brief study of India's external debt burden during the post-independence period reveals a major disquieting trend, namely, the use of large proportion of external assistance for debt-servicing. Needless to say, this has denied the country of the opportunities to utilise foreign aid effectively for the creation of tangible income-yielding assets. To avoid this, the author suggests the creation of a sinking fund by the beneficiaries of aid for the purpose of amortising the loans so that fresh aid can be utilised entirely for the purpose of genuine development.

THE experience of many developing economies including India, demonstrates that external aid has not only been a pre-requisite for economic development but also that the burden of this external debt has mounted over the years. So far as the external debt burden is concerned, much depends on not only the volume and mode of the utilisation of external aid received but also on the payments procedure adopted for the repayment of this debt. If it is repaid through surplus on merchandise trade account or that on invisibles account, the burden could be lesser than when foreign debt is repaid by incurring further loans from abroad which again need to be repaid sooner or later. The latter case also reduces the country's investible resources which would otherwise have been released, as a result of borrowing abroad. Further, repaying of foreign debt through foreign loans might tell upon the liquidity position of the country.

Growing external debt burden would also adversely affect the merchandise trade and invisibles. Since merchandise trade is generally in deficit for developing economies, that is, merchandise imports far exceeding merchandise exports, the need for external assistance to finance imports is all the more there, This might not be forthcoming in substantial amounts if a major proportion of external assistance is utilised for external debt servicing. The invisibles account could also be upset by heavy interest payments on foreign debts which form a part of investment income payments.

Apart from its impact on merchandise trade and invisibles, foreign debt could also influence adversely the capital flows of the country concerned, in the form of rising amortisation payments. The burden of foreign debt has proved to be staggering for a developing economy due to foreign exchange scarcity, huge merchandise trade deficit, little or no surplus on invisibles, uncertainty regarding foreign aid and slow developmental proces.

India's Experience

India's foreign aid requirements have mainly stemmed from the requirements of the Five Year Plans themselves and on this account, authorised aid received from abroad until 1979-80, has been to the tune of Rs. 24,759.2 crores, of which utilized aid constitutes nearly 83.2 per cent or Rs. 20,598.6 crores. Nearly 27.5 per cent or Rs. 5,667.6 crores of total utilized foreign aid has been spent on repayments of foreign loans until 1979-80. Since grants made up for 10.6 per cent of total utilised aid until 1979-80, nearly 61.9 per cent of foreign aid remains outstanding and needs to be repaid sooner or later.

External loans received by India may be broadly categorised into four groups with varying interest rates, (a) Relatively soft loans with interest rate upto 2.5 per cent and maturity of more than 20 years, (b) East European type credits with interest rates of more than 2.5 per cent and maturity of 12 years, (c) Conventional loans with interest rates of more than 5 per cent and maturity of 10 to 20 years, and (d) Other loans whose maturity could be less than 10 years or even 20 years such as suppliers' credit etc. Conventional loans account for nearly 70 to 75 per cent, on average, of external loans.

Since India experienced chronic deficits in merchandise trade right from the First Plan itself, merchandise trade balance could not act as an avenue of surplus for foreign bebt servicing. Even invisibles account was unable to generate substantial surpluses for purposes of interest and amortisation payments on foreign loans. Consequently, the whole burden of servicing foreign debt fell on utilised external assistance. In the period 1966-67 to 1979-80 nearly 51.4 per cent, on average, of utilized external assistance has been spent on foreign debt servicing. In fact, the proportion of debt servicing as percentage of utilised external assistance has grown from 24.0 per cent in 1966-67 to 64.7 per cent in 1979-80. From 1977-78 onwards, more than half of utilized external assistance has been spent on repayments of former loans including interest payments on existing loans. This indicates that external assistance which could have been utilized to generate new investment in the economy had to be spent in servicing old loans.

Since the economy has started borrowing rom abroad right from the First Plan itself, many a foreign debt with maturity period of 10 to 20 years or even more got matured and were also repaid over the span of time, 1966-67 to 1979-80. Hence, amortisation payments which represent repayments of loans on official account exhibited a rising trend with a growth rate of 10.1 per cent over the period 1966-67 to 1979-80 prior to which it had a much lower growth rate because most of the loans contracted in the First, Second and Third Five Year Plans had not matured till then. In fact, amortisation payments exhibited a negative trend with a growth rate of 21.6 per cent over the period 1950-51 to 1956-57.

---

*D/G.C.I. & S., Calcutta.

Along with amortisation payments, there were the interest payments on various loans which accounted for nearly 51.0 per cent of total debt servicing in the period 1950-51 to 1965-66, the rest i. e. 49.0 per cent being amortisation payments. The respective shares of amortisation and interest payments underwent a drastic change over the period 1966-67 to 1979-80 when interest payments accounted for only 35.0 per cent of total debt servicing and the rest, i. e., 65.0 per cent was of amortisation payments.

Impact on Invisibles

Foreign debt servicing is claiming an increasing proportion of utilised external assistance over the years. Although foreign debt servicing has been steadily increasing at the rate of 9.3 per cent over the period 1966-67 to 1979-80, utilised external assistance has exhibited an extremely fluctuating behaviour over the same period. One can discern a falling trend along with a growth rate of 8.4 per cent in utilized external assistance in the said period. A significant point is brought out from a comparison of the behaviour of the two, that if utilized external assistance has to keep pace with growing foreign debt servicing, then it should also increase on an equal and steady footing.

External debt servicing is having a substantially adverse impact on invisibles through payments on account of investment income. Interest payments which made up for only 10 per cent of investment income payments in 1951-52 rose to nearly 55 per cent in 1966-67 there after it increased further to 72 per cent on account of foreign debt servicing. Foreign debt servicing is eating up a major proportion of utilised external assistance and thus depriving the economy of new investment opportunities which would otherwise have existed. More and more resources are being drained out of the economy through raising interest payments and amortisation payments.

Policy Implications

Since interest payments on foreign loans are assuming unmanageble proportions and are having its impact on investment income payments, there is need to build up a sinking fund for servicing of foreign loans. Industries which have used these loans should contribute towards the maintenance of the sinking fund in proportion to the loans used as well as to different rates of interest charged on different foreign loans. Undertakings which use foreign loans should be efficient enough to earn a surplus and pay back the servicing charges as well as the principal amount of these loans. This would have a beneficial impact on not only investment income payments but also amortisation payments on capital account.

The massive foreign bebt servicing also entails that foreign aid should flow into the areas where it is indispensable. It should be used in a selective manner for certain selected industries which when commissioned would generate surpluses and thus pay back the aid received. Soft loan agreements would lessen the strain. Alternative sources of foreign debt servicing such as surpluses on merchandise trade or that on invisibles would also reduce the strain on utilized external assistance.

Your principal grows with us.....!

When you deposit with FEDERAL BANK, your 'principal' grows with us to sums far beyond your guess.

We have a variety of schemes that cater to varied tastes and dreams. To suit your purse and purpose bank with your own Bank.

THE FEDERAL BANK LTD.

Regd. Office: Alwaye

(AUTHORISED DEALERS IN FOREIGN EXCHANGE)

Our Branches in Bangalore:

P B No. 9981, No. 11, 1st Cross, Gandhi Nagar, Bangalore-560 009.

□ □ □

P B No. 2518, 44, Residency Road, Bangalore-560 025.

book reviews

Growing Enough Food for India's Millions

THE book under review* deals with the food problem in India. The study, based on data collected from secondary sources, was conducted by the authors at the Brooking Institution of the United States. First of all, the authors have reviewed the food trends in India in the light of unreliable weather conditions, improving technical inputs such as irrigation, consumption of chemical fertilisers, adoption of high yielding and improved varieties of seeds and institutional factors such as the size of land-holdings, tenancy, provision for institutional credit to farmers and above all, the policies of the Government during the first 25 years of planned development.

The intensity of the food problem in India is attributed mainly to the high growth of population. The authors have found that while food production was doubled during the 25 years of planning, its positive impact on the food situation in India has almost been neutralised by the 70 per cent growth in population during the same period. What would be the food situation in India, keeping in view not only the high growth of population but also various technological and socio-economic developments during the next 25 years, by the end of this century? This is the main concern of the authors.

One of the heartening aspects of study is its focus on the role of weather and soil condition in agriculture. Though it would not be an easy task to thoroughly examine the impact of weather on agriculture in a vast country like India, the very fact that the authors have made a serious attempt to estimate it is heartening. While examining the Government's policies in regard to imports and stock management, procurement and distribution, price incentives aud so on, the authors seem to agree, by and large, with its policies. On the size of land holdings and yield, though the authors agree on the findings of other studies, such as those by NCAER, Dharm Narain and others, the authors cast doubts on the feasibility of the proposition: "larger the farm size, less the intensity of cultivation". They state: "While the enlargement of the operating unit may lead to less intensive cultivation, this may be offset by more rapid adoption of new technology by the larger operating unit". (P-69-70).

In the course of estimating supply and consumption of food by different sections of the population, the authors have analysed the N.S.S. estimates, the nutritional surveys conducted by National Nutrition Monitoring Bureau, and a study on food consumption in Calcutta in 1969-70. In this regard, the authors doubt the reliability of their own estimate as well as those of others mainly on two counts: first, by value-based estimates and secondly, over-estimation in the case of the rich sections and under-estimation in the case of poorer sections specially in rural areas.

Finally, the authors have estimated the demand for food for 2000 A.D., based on population growth, income growth and change in rural and urban population ratio. Besides, other factors such as seed and feed requirements and post-harvest losses have also been taken into account. Ths book is quite analytical. It is undoubtedly a valuable addition to the literature on this topic. While it may be quite useful for the planners and the policy-makers, it would undoubtedly be quite stimulating to the researchers concerned with the problem.

— A.N. Pandey

---

*FOOD — TRENDS AND PROSPECTS IN INDIA by Fred H. Sanderson and Shyamal Roy, Allied Publishers Pvt. Ltd., 13/14, Asaf Ali Road, New Delhi-110 002 Pp. xiii + 160; Price Rs. 40.

Financing Development of Small Farms

Development Finance for Small Farmers, By N. Mohanan, Rainbow Publications, 471, M. T. P. Road, Coimbatore; Pp. 298; Rs. 60.

SINCE the launching of the first five year plan, several special measures have been evolved by the Government in order to improve the economic lot of the weaker sections of the population and to make them self-supporting. The Small Farmer Development Agency (SPDA) is one of them. It aims at improving the economic condition of small farmers. The purpose of having such a specialised agency is that it would be fully involved in providing technical, financial and other assistance and guidance to the target groups so as to better their economic condition. However, past experience has not been very encouraging mainly due to the lack of co-ordination among various agencies. This has untimately forced the Central Government to launch the Integrated Area Development Programme — single agency approach — rather than having a variety of specialised agencies for rural development.

The book under review, an outcome of the author's Ph.D. dissertation submitted to the University of Poona, examines the roles of SFDA and the financial agencies like cooperative banks and commercial banks in the development of small farmers. The study area is confined to a few villages in the Kasaragod and Hosadurg taluks in Cannanore district in Kerala. The study is based on primary data collected from sample households with special reference to the two groups of beneficiaries—one who had received the financial assistance for minor irrigation and the another for dairying.

In addition, the author has also studied the sample households of non-beneficiaries who had been recognised as small farmers eligible for SFDA assistance, but till then had not received any such assistance. In this way, he has been able to draw a comparative picture of the economic condition of beneficiaries and non-beneficiaries and has come to the conclusion that beneficiaries have certainly been able to improve their economic conditions with the help of assistance received, while the non beneficiaries were at a disadvantage.

However, the author has found many drawbacks in these schemes. First of all, according to the author, the process of recognising small farmers was not very sound and non-farm income of the household was not taken into account. Secondly, it was the larger among small farmers who got the maximum assistance and "a sound resource base" continued to be the major basis for extending credit. Similarly, there was poor coordination among various agencies required to jointly assist the farmers Besides, the role of commercial banks in the development of small farmers was much inferior to that of cooperative banks. There was also lack of integrated financial assistance and marketing arrangement for agricultural and dairy products. This affected the repaying capacity of beneficiaries.

On the positive side, the author has found the SFDA to be reasonably useful in the upliftment of small farmers. He has made a few suggestions, which if accepted, would go a long way in accelerating the pace of small farmers' development. Though the data-base belongs to the early and mid-1970s, and the theme is nothing new, the study is quite revealing. The book is certainly a valuable contribution to the literature on rural development.

— **A. N. Pandey**

Educational Planning: Lessons of Kerala's Experience

Primary Education, Population Growth And Socio-Economic Change by P. R. Gopinathan Nair, Allied Publishers, 13/14, Asaf Ali Road, New Delhi-110002, Pp. 192, Rs. 65.

Dr. Nair's path-breaking study on educational policy and its effect on the levels of literacy is based on the experience of Kerala but it has great relevance to the educational problems faced by the other states. That it is an adaptation of the author's Ph. D. thesis should not detract from its value to educationists everywhere.

The book attempts to study the relationship between education and population-growth, in the light of the experience of Kerala. The book starts with a survey of the historical factors that gave Kerala the momentum of an early start and proceeds to make inter-state comparisons with a view to highlighting the uniqueness of Kerala. It underscores the need for evaluating the state's achievements in this field not merely in terms of what is spent on education but in terms of the drop out ratios at various levels. The author brings out the fact that the effective cost of eduction at the elementary stage in Kerala is the lowest in India. As the title of the book indicates, there is close relationship between the growth of education in a region and the overall improvement in the conditions of the people of that region. This fact is borne out by Kerala's experience.

An important conclusion that emerges from this study is that "economic backwardness need not necessarily act as an insuperable barrier to the spread of mass primary education, provided the initiative and ethusiasm necessary for such a process to take place emanate from the people themselves". Another equally important finding is that the spread of education, as reflected in the high literacy rate, facilities demographic transition in the direction of a lower birth rate.

Dr. Nair does not slur over the fact that the spread of education in Kerala has not been without its blind-spots. To the extent that education got a special fillip from the Christian missionaries and later, from certain Hindu communities, the benefits also largely went to the religions and communities which pioneered education. Secondly, the absence of vocational bias in education and the lack of a fairly wide industrial base in Kerala resulted in the growth of unemployment at an alarming rate. All in all, Dr. Nair's study should serve as an eye-opener to our educational planners who do not seem to have sufficiently recognised the vital linkages that exist between education and development in various other spheres.

— **K. N. S.**

New Approach to Resource-Sharing

Trends and Issues in Indian Federal Finance (National Institute of Public Finance and Policy) by Raja Chelliah and Associates, Allied Publishers, 13/14, Asaf Ali Road, New Delhi-110002, Pp. 182, Rs. 60.

This is the revised version of a study presented at a seminar which discussed the major issues in federal finance a few years ago. The focus of the study is on the working of the finance commissions which periodically go into the question of the sharing of financial resources between the centre and the states. Needless to say, the points made in the study influenced the recommendations of the Seventh Finance Commission, to some extent.

The book starts with an analysis of the major theoretical issues in federal finance and reviews the manner in which successive finance commissions approached the question of resource-sharing. Although these commissions worked within the frame-work of the Constitution, the focus changed, as can be seen from the guidelines issued at the time of appointing these commissions. The study by Chelliah and others brings out the fact that the refinements introduced in the revenue-sharing and gap-filling formulas worked out by these commissions have not resulted in a reduction the inequalities (among the states) in the levels of education, medical and administrative services. Another finding of the study is that the system of federal transfers as a whole has had a dampening effect on the tax effort of the states.

Since the methods adopted by the finance commissions have not served the intended purpose, the authors recommend a new approach which shifts the emphasis from "gap filling" to an objective evaluation of revenue capacity and the real needs of a state. The value of the book is enhanced by the inclusion, in the appendices, of the recommendations of the Seventh Finance Commission and also the federal relations obtaining in selected countries like the United States, West Germany and Canada.

— K. N. S.

Devolution Scheme Needs Overhaul

Centre-State Financial Relations by Hemalata Rao, Allied Publishers, 13/14, Asaf Ali Road, New Delhi-110 002, Pp. 203, Rs. 40.

This book by Smt. Hemalata Rao, should serve as an admirable companion volume to the one by Dr. Chelliah and associates reviewed here. Although some amount of overlapping is unavoidable in books of this *genre*, Hemalata Rao's book differs from the other one in that it is more concerned with horizontal fiscal transfers among the states than with vertical transfer from the Centre to the states, as Dr. V.K.R.V. Rao succintly observes in his foreword to the book. This is a revised version of the author's Ph.D. thesis on the subject.

Hemalata Rao's book examines the issues involved in the process of financing balanced regional development through the mechanism of federal fiscal transfers. The study covers the transfers not only by finance commissions but also the Planning Commission. One of the points that the author makes is that undue reliance on the "population" criterion has resulted in non-discriminatory *per capita* transfers, thus militating against reducing regional disparities. She pleads for the distribution of resources on the basis of an eligibility index which takes into account the "fiscal needs" as well as "fiscal effort". Towards this end, the author tries to (a) identify backward states in terms of a composite index of development and (b) develop a measure of fiscal potential and relative tax efforts.

On the basis of her findings, the author rightly points out that the existing scheme of devolution needs to overhauled. Considering that the working of the sharing arrangement over the past three decades has not resulted in any significant improvement in the condition of less developed states, the need to adopt a more rational basis for this purpose was never more urgent than it is today. And Smt. Rao's book gives a formula which largely answers this need.

— K. N. S.

Text Book on Planning : Cramming is not All

Economic Planning — Principles and Practice by Mamata Patankar, Sultan Chand & Sons, 4792/23, Daryaganj, New Delhi, Pp. 552, Rs. 22.50 (paper bound).

THIS is the second edition of Mamata Patankar's book on economic planning, which caters largely to the needs of undergraduate and graduate students. It covers the entire gamut of planning in India ranging from an exposition of the theoretical concepts of growth to the micro aspects. This is a very useful book but if the eager student wants to get an insight into any single aspect of development, he will be somewhat disappointed because the treatment of the topics dealt with in the book lacks analytical rigour. This cannot, however, be considered as a major flaw in a book which is intended to acquaint the student with the subject of planning, rather than to make him an expert in any one aspects of developmental economics.

Text books like the one written by Mamata Patankar are very useful to students who often acquire fragmentary knowledge which, needless to say, is a very dangerous thing, but there is also the fact that most authors tend to sacrifice clarity in their eagerness to cover everything under the sun. What is often forgotten is that the results achieved are of greater significance than the goals listed in our five-year plans. It is a pity that very few authors take the trouble of analysing why planning has met with limited success in India. Smt. Patankar will do well in the next edition to focus more on the sore spots like the failure of the planners to bring down the rate of population-growth, the absence of a major shift in income-generation towards secondary and tertiary sectors, the choice of inappropriate technology, deficiencies in the activation of human capital, management shortcomings of the public sector, bureaucratic hurdles to project implementation and so on.

— K.N.S.

India — The Turbulent Half-Decade

BY K. N. SUBRAHMANYA

(200 pages, Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first year's record.

Copies can be had from :

Southern Economist,
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

Inflation Continues Despite Higher Production

The year July 1980–June 1981 presented mixed developments in the economy. On the positive side, there was an improvement in output. in contrast to the setback in the previous year. The pace of price-increase declined. But there were no indications of halt to, much less a reversal of, the inflationary trend. Monetary expansion was at a higher rate than in the previous year. In respect of external trade and payments, the situation worsened with a widening of the trade gap and a further drop in foreign currency reserves. These trends are highlighted in the Reserve Bank's Report on Currency and Finance, 1980-81.

National Income: Available indicators suggest that the national income at 1970-71 prices grew approximately by 7 per cent to Rs. 47,431 crores from Rs. 44,328 crores in 1979-80. The growth, which was in contrast to the fall of 4.9 per cent in 1979-80, was due primarily to the marked recovery of about 22 per cent in agricultural production and moderate improvement of about 4 per cent in industrial production. Transport, communication and other services sectors would also have shown improvement. *Per capita* income in real terms was higher at Rs. 694, against Rs. 678.

Saving: Tentative estimates of the Bank show an increase of Rs. 3,607 crores to Rs. 20,967 crores in net domestic saving, in contrast to the fall of Rs. 574 crores in 1979-80. However, the rate of saving (ratio of aggregate net saving to NNP at market prices) was lower at 17.0 per cent, than that of 17.1 per cent in 1979-80 and the peak rate of 19.5 per cent in 1978-79. The marginal fall was attributable to the sharp deterioration in the saving of the public sector as a result of the negative saving of Central Government administration. The saving in 1980-81 of this sector is put at Rs. 3,002 crores (representing 14.3 per cent of total saving), against Rs. 3,255 crores (18 8 per cent of total saving) in 1979-80. This sector's saving ratio, which had gone down from 4.4 per cent in 1978-79 to 3.2 per cent in 1979-80, declined further to 2.4 per cent in 1980-81. The household and private corporate sectors, however, recorded small improvements in their saving ratios. The net saving of the household sector rose sizeably by Rs. 3,561 crores to Rs. 16,829 crores; in relation to NNP, however, the rise was fractional, being 0.6 percentage point over the level of 13.1 per cent in 1979-80. There was a further improvement in the saving of the private corporate sector, the share of which (including saving of co-operatives) in the total net domestic saving went up from 3.0 per cent in 1978-79 to 4.8 per cent in 1979-80 and further to 5.4 per cent in 1980-81.

Investment: Despite a fall in the rate of domestic saving, net investment as a ratio of national income at current prices is estimated to have gone up to 19.1 per cent in 1980-81 from 17.6 per cent in 1979-80. This marked improvement in net capital formation is ascribed to the conspicuously larger inflow of foreign resources which in relation to NNP at market prices worked out to 2.1 per cent, against 0.5 per cent.

Agricultural output: After the severe setback in 1979-80 due to the unprecedented drought, agricultural production is expected to reach a new record level during 1980-81, aided by overall normal weather conditions and the various steps taken by Central and State Governments to improve agricultural production. Latest estimates put the total foodgrains output in 1980-81 at 130 million tonnes. Among cash crops, sugarcane is expected to recover to 152 million tonnes (in terms of cane), showing an increase of about 24 million tonnes over 1979-80.

In the case of oilseeds, although the major crop, viz. groundnut suffered a setback due to drought in parts of Gujarat, Andhra Pradesh and Karnataka, overall production is expected to be substantially higher at about 10.3 million tonnes, as compared to the previous year's 8.9 million tonnes. Cotton production is provisionally estimated at around 79-80 lakh bales, as against 77 lakh bales in 1979-80. Similarly, jute and mesta production reached a higher level of 82 lakh bales, against 80 lakh bales. Production of tea registered an increase of 23.2 million kgs. to 575.1 million kgs. in the calendar year 1980. Production of coffee during the 1980-81 season (October-September) is provisionally estimated at 1,30,500 tonnes, reflecting a sharp decline of 19,200 tonnes (or 12.8 per cent) over the previous year.

Industrial ptoduction: Industrial production recorded a moderate improvement in the fiscal year 1980-81, in contrast to the poor performance in 1979-80. The monthly average general index of production (base: 1970=100) for 1980-81, at 154.1, was 4.1 per cent higher. This growth rate was quite significant when compared to the decline of 1.4 per cent in the previous year; also the growth was achieved in spite of pronounced infrastructural deficiencies in the first half of 1980-81. The factors that contributed to the improvement were the easing of infrastructural constraints which had hampered industry in 1979-80.

The revival in industrial production noticed since July 1980 was not only sustained but also strengthened in the first quarter of 1981-82 (April-June). The monthly average general index at 156.8 in April-June 1981 showed a rise of 11.1 per cent over April-June 1980, in contrast to a fall of 2.4 per cent recorded a year ago over the corresponding quarter of 1979.

Price situation: The wholesale price index for "all commodities" (1970-71 = 100) registered a rise for the third year in succession, going up on a point to point basis by 11.3 per cent, from 251.4 for the week ended June 28, 1980 to 279.8 for the week ended June 27, 1981. However, this rise was less than half of the increase of 23.2 per cent in the preceding year. The average annual index recorded a rise of 16.7 per cent, against 20.2 per cent in 1979-80. As in the past, supply imbalances in some critical commodities constituted an important factor influencing the price situation during the year. Apart from this, the increase effected in the administered prices of commodities such as petroleum products, cement and steel, as well as in the excise duties on certain commodities, also contributed to the overall inflationary situation. The good foodgrains production in 1980-81 did not obviously reduce the inflationary impact, in view of the large decline in foodgrains output in the previous year and the consequent draw-down on their public sector stocks.

Cost of living: The rise in the prices of most of the primary articles, fuel items and other finished consumer products resulted in an increase of 13.7 per cent in the all-India consumer price index for industrial workers (1960 = 100) from 386 in June 1980 to 439 in June 1981; in the same period of 1979-80, the index had shown a smaller rise of 11.9 per cent. The consumer price index for urban non manual employees (1960 = 100) rose to 401 in June 1981 from 355 in June 1980, indicating a rise of 13.0 per cent, as against a smaller rise of 11.6 per cent in the corresponding period last year.

Price policies: An important aim of the anti-inflationary policy of the Union Government during 1980-81 (July-June) was to effect an improvement in the availability of commodities of mass consumption in short supply. This was sought to be realised by importing these goods and streamlining distribution arrangements in essential commodities. The administered prices of some commodities were revised upwards when this had become unavoidable.

Money supply: Monetary expansion in 1980-81 (July-June) was higher than in the previous year. Broad money or M_3 (currency with the public, aggregate deposits with commercial and co-operative banks, and 'other' deposits with the Reserve Bank) increased by Rs. 9,174 crores or 18.8 per cent in 1980-81, as against a rise of Rs. 6,385 crores or 15.0 per cent in the previous year. The increase consisted of the rise of Rs. 7,344 crores in aggregate deposits with banks and of Rs. 1,839 crores in currency with the public, partly offset by a decline of Rs. 9 crores in the 'other' deposits with Reserve Bank. Increases in both net bank credit to Government and bank credit to the commercial sector were larger in 1980-81 than in 1979-80.

Net Reserve Bank credit to the Union and State Governments rose by Rs. 4,680 crores in 1980 81, as against the rise of Rs. 3,727 crores in the preceding year. The credit extended by all commercial and co-operative banks to the Government increased by Rs. 1,540 crores, against Rs. 1,621 crores. As a result, the overall net credit to Government by both the Reserve Bank and other banks went up by Rs. 6,220 crores in 1980-81. as against the rise of Rs. 5,348 crores in 1979-80. Bank credit to the commercial sector spurted by Rs. 6,376 crores against Rs. 3,919 crores in the preceding year. With the rising trade deficit outstripping receipts on invisible account, the downward trend in the net foreign exchange assets or the banking sector accelerated in 1980-81. The decline was of the order of Rs. 720 crores, against Rs. 566 crores in 1979-80. The decline would have been much larger, but for the availment of the IMF Trust Fund loan of Rs. 544 crores in August 1980.

Net non-monetary liabilities of the banking sector (other than time deposits with banks) increased by Rs. 2,712 crores, against Rs. 2,309 crores. Net non-monetary liabilities of the Reserve Bank showed an increase of Rs. 877 crores, against Rs. 897 crores.

Banking developments: Substantially higher rates of growth in aggregate deposits, non-food credit, and cash in hand and balances with Reserve Bank were the highlights of banking trends during the year ended June 1981. Deposits of scheduled commercial banks rose sharply by Rs. 6,807 crores or 20.4 per cent, as against an increase of Rs. 4,706 crores or 16.4 per cent in 1979-80. This may be attributed to the appreciable rise of about 7 per cent in national income in 1980 81, in contrast to a decline of 4.5 per cent in 1979-80, and also to inflationary situation. Expansion of bank credit was also substantially larger at Rs. 4,332 crores or 19.6 per cent, against Rs. 2,381 crores or 12.1 per cent in 1979-80. This was the net result of increase in non-food credit and decline in food credit. Non-food credit expansion was as much as Rs. 4,529 crores or 23.0 per cent, as against Rs. 2,967 crores or 17.8 per cent in the previous year. There was a fall of Rs. 197 crores in food credit. The credit-deposit ratio as at the end of June 1981 was marginally lower at 65.7 per cent, against 66.1 per cent a year ago. The incremental credit-deposit ratio for 1980-81, however, worked out much higher at 63.6 per cent, against 50.6 per cent in 1979-80.

Credit policy: In the context of the sizeable monetary and non-food credit expansion and persistent inflationary pressures, was the overriding objective of economic policy, a slowing down of the pace of monetary and credit expansion became clearly necessary. In the first quarter of the year (i.e. July-September 1980), the pace of deposit growth was low, while bank credit declined marginally. Busy season demand for credit was, however, expected to be large, reflecting the anticipated growth of the economy and the need for meeting the requirements of priority sectors and exports. In this context, banks were exempted from end-October 1980 from maintaining additional cash reserve of 10 per cent of their incremental net demand and time liabilities accruing since January 14, 1977. In each of the next three quarters (i.e. October 1980-June 1981), the pace of deposit growth was much higher than in the corresponding periods of the preceding year. Non-food credit expansion was also substantially larger than in the preceding year. It thus became necessary for the

Reserve Bank to issue towards the close of May 1981 quantitative guidelines to banks regarding their non-food credit expansion in the 1981 slack season, in the first half of the financial year 1981-82 and in the whole of 1981-82. A number of other measures were also taken by the Bank to control monetary and credit growth: these included the raising of cash reserve ratio from 6 to 7 per cent net demand and time liabilities and the raising of interest rate on discretionary refinance and rediscounting of bills by as much as three percentage points.

At the same time, banks were urged to make renewed efforts to provide adequate credit to priority sectors, to meet the genuine requirements of production and public distribution of essential commodities, and to pay special attention to the needs of the beneficiaries of the 20-Point Programme. As there was no abatement in the pace of monetary and credit expansion, the Bank took additional measures in July 1981, which included the raising of Bank Rate from 9 to 10 per cent, the stepping up of statutory liquidity ratio from 34 per cent to 35 per cent and the raising of interest rates on certain refinance facilities including food refinance and export refinance.

Budgets: The fiscal policy of the Central Government for 1980-81 sought to devise ways and means to arrest the deterioration in the economic situation and set the economy on the path of stability and growth. It was considered necessary to restrain the price rise through increase in aggregate supply and moderation of aggregate demand, to remove infrastructural constraints, and to enlarge available facilities through investment wherever necessary. Although the immediate problems of economic management influenced the formulation of the budgetary policy, the need to build up the growth potential of the economy over the medium term also received due emphasis.

The combined budgetary deficit of the Central and State Governments in 1980-81 (revised estimates) was Rs. 2,520 crores which was lower by Rs. 100 crores than the deficit of Rs. 2,620 crores in 1979-80. Aggregate receipts increased by Rs. 6,632 crores (22.8 per cent) to Rs. 35,682 crores, while aggregate disbursements were higher by Rs. 6,532 crores (20.6 per cent) at Rs. 38,202 crores. According to budget estimates for 1981-82, aggregate receipts are expected to increase by Rs. 2,338 crores (6.6 per cent) over the revised estimates for 1980-81. The combined disbusrements are anticipated to rise by Rs. 1,681 crores (4.3 per cent) to Rs. 39,883 crores. Non-developmental expenditure is budgeted to increase at a higher rate (7.5 per cent) to increase at a higher rate (7.5 per cent) than developmental expenditure (4.3 per cent).

Publib debt: The outstanding public debt of the Government of India as at the end of March 1981 stood at Rs. 40,325 crores. It registered a larger increase of Rs. 6,042 crores (17.6 per cent) than in the provious year, i. e. Rs. 5,056 crores (17.3 per cent). The proportion of Central public debt to gross domestic product at current market prices is estimated lower at 30.7 per cent, against 31.6 per cent in 1979-80. Internal debt recorded a rise of Rs. 4,690 crores (or 19.3 per cent) during 1980-81, as against the increase of Rs. 4,464 crores (22.5 per cent), and stood at Rs. 29,009 crores at the end of March 1981. All the components of the internal debt, viz., market loans, treasury bills and special floating and other loans, etc., recorded increases during the year. External debt amounted to Rs. 11,316 crores, representing a substantial rise of Rs. 1,352 crores (13.6 per cent), as compared with the increase of Rs. 591 crores (6.3 per cent) in the previous year. Gross receipts under external loans are estimated at Rs. 1,421 crores, aginst Rs. 1,211 crores. According to the budget estimates for 1981-82, the total public debt is expected to go up by Rs. 6,452 crores to Rs. 46,777 crores, internal debt rising by Rs. 5,451 crores to Rs. 34,460 crores (mainly on account of market loans and treasury bills) and external debt by Rs. 1,001 crores to Rs. 12,317 crores.

Capital Market: Activity in the capital market showed a general improvement during the calendar year 1980 which was further strengthened in the first half of 1981. The value of consents/acknowledgements of proposals granted by the Controller of Capital Issues to non-Government public limited companies in 1980 aggregated Rs. 774 crores, which was 62.5 per cent higher than in the previous year. The total value of consents granted during January-June 1981 was Rs. 236 crores, against Rs. 234 crores in the corresponding period of 1980. Capital issued by public limited companies (other than term-lending institutions) in 1980 was lower at Rs. 157 crores, against Rs. 180 crores in 1979. It however, improved significantly during the first half of 1981, amounting to Rs. 257 crores, compared to only Rs. 63 crores during January-June 1980. Aggregate capital raised by non-Government companies under consents/acknowledgements of proposals during 1980 at Rs. 227 crores was almost the same as in 1979.

Term finance: The total financial assistance sanctioned and disbursed by financial institutions during the financial year 1980-81 (April-March) increased to Rs. 2,369 crores and Rs. 1,601 crores from Rs. 1,862 crores and Rs. 1,180 crores in 1979-80, recording a rise of 27.2 per cent and 35.7 per cent, respectively.

Security prices: During the period, July 1980-June 1981, industrial security prices were generally buoyant. The RBI all-India index for equity prices for the week ended June 27, 1981 was 199.6, which was higher by 33.6 per cent as compared with the index on June 28, 1980.

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office:
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription:
Rs. 50 : Single Copy Rs. 2-25

PUBLIC SECTOR

IDBI Sets New Records in Lending Operations

THE Industrial Development Bank of India scaled new heights during the year ended June 30, 1981. The bank's disbursements crossed the 1000-crore mark to reach Rs. 1,256 crores. This works out to a growth rate of 35 per cent over the previous year when disbursements totalled Rs. 930 crores. It has been calculated that IDBI's assistance will catalyse investments of the order of Rs. 2,580 crores, generating additional employment of 4 lakhs. IDBI's direct assistance in terms of disbursements increased by 63 per cent to reach Rs. 353.5 crores. Assistance to new projects constituted 57 per cent of the direct assistance. A major project assisted during the year was the Rs. 133-crore newsprint project in Tamil Nadu. IDBI's profits increased by 43 per cent from Rs. 28 crores to Rs. 40 crores. Its net worth rose from Rs. 177 crores to Rs. 249 crores.

The cumulative assistance of IDBI since its inception (July 1964) totalled Rs. 7,524 crores in terms of effective sanctions and Rs. 5,123 crores in terms of disbursements. During 1980 81, IDBI sanctioned refinance assistance of Rs. 469 crores to the small scale sector, compared to Rs. 434 crores (decimals rounded) in the previous year. The Bank's assistance to industrial units in specified backward districts rose by 29 per cent to reach Rs. 745 crores. An industry-wise breakdown of IDBI's assistance reveals that during 1980 81, the share of basic industries in the Bank's total sanctions declined from 25.3 per cent to 17.8 per cent while the share of consumer goods industries improved from 26.3 per cent to 34.2 per cent. In the consumer goods sector, IDBI's assistance to paper industry increased five-fold. This is explained by IDBI's sanction to Tamil Nadu's newsprint project.

The state-wise pattern of IDBI's assistance reveals some interesting trends. Predictably, Maharashtra claimed the largest slice of IDBI's assistance. At Rs. 1,131 crores, the cumulative total for the state forms 17.20 per cent of the Bank's assistance to all the states. Next comes Gujarat with a cumulative total of Rs. 951 crores and a percentage share of 14.46. The Third place is occupied by Tamil Nadu which took IDBI's assistance amounting to Rs. 799 crores since the Bank's inception. If IDBI has a policy-bias in favour of backward states, it is not seen in these cumulative totals. Uttar Pradesh, the largest state, accounts for only Rs. 483 crores (7.34 per cent) while Bihar, another backward state, received only Rs. 187 crores (2.84 per cent). There does not appear to be any change in this pattern, even if one takes into account the aid sanctioned only during 1980-81.

That IDBI has not discriminated against MRTP companies — the larger firms which come under the definition of the monopolies Commission — is evident from the rise in the bank's assistance to this category from Rs. 174 crores to Rs. 202 crores. The overdues position in respect of IDBI's assistance is less than 4 per cent which compares favourably with the loans advanced by other financial institutions.

The task of the financial institutions, of which IDBI is the apex body, in meeting the investment needs of the Sixth Plan is a challenging one. Out of an outlay of Rs. 45,515 crores in the manufacturing sector, the private corporate sector's share is estimated at Rs. 15,000 crores. The IDBI Chairman, Mr. Narayana Pai observed, in this context: "While a significant portion of this would be financed from internal genration including depreciation and reserves, the draft on the financial institutions and banks to meet the balance requirement of the corporate industrial sector as well as of the non-corporate sector would be substantial".

IDBI is also making efforts to raise loans in the capital market abroad. On January 21, 1982, IDBI made its entry into the Euro-currency market by securing a syndicated loan of $ 25 million, with the participation of SBI and Lloyds Bank, among others. Mr. Pai has disclosed that IDBI has plans to raise a similar syndicated loan in the yen market (Japan). The Bank expects to raise $ 200 to $ 250 million worth of loans this year to finance its lending programmes.

Mixed Performance by Unit Trust

During the year ended June 30, 1981 the Unit Trust of India witnessed competitive pressures. Sales of units, Rs. 52.10 crores, showed a decline of 10 per cent from the last year's level of Rs. 57.85 crores. The extent of fall in the case of the Unit Scheme 1964 Proper—the main scheme of the Trust—was about 21 per cent. Repurchases, on the other hand, showed an uptrend. Thus, repurchases, at Rs. 17.64 crores, were 22 per cent higher than those at Rs. 14.41 crores last year. However, repurchases formed only 4 per cent of the unit capital.

The total unit-capital went up to Rs. 425.35 crores from the last year's level of Rs. 390.19 crores—showing a net increase of Rs. 34.46 crores. The number of unit holding accounts crossed the one million mark. The investible funds recorded a rise of Rs. 56.18 crores to Rs. 523. 22 crores from the last year's level of Rs. 467.04 crores. Due to the prudent deployment of funds and careful portfolio management., taking maximum advantage of the changing conditions in the financial field, the increase in the income was more than proportionate to the increase in funds.

Excellent Performance By ACC

AS briefly reported in these columns earlier, the Associated Cement Companies Limited has turned out excellent performance during the year ended July 31, 1981. The company's sales turnover, which stood at Rs. 163.94 crores in 1979-80, improved to Rs. 202.81 crores in 1980-81. There has been a marked increase in the company's net profit from Rs. 74 lakhs (figure rounded) to Rs. 1.96 crores during the year. The company has maintained the equity dividend at Rs. 10 per share.

There has been a 11.20 per cent increase in the production of grey cement to 58.49 lakh tonnes. The sales also stood at around the same level. The sale of Silvicrete cement was marginally higher, at 58,809 tonnes. The company's programme for installation of additional capacity of 10 lakh tonnes per annum at Wadi in Karnataka and 5.60 lakh tonnes per annum at a new location at Gagal in Himachal Pradesh is under progress. The Wadi Project is expected to be commissioned in April 1982 and the Gagal Project in October 1982. Due to inflation, the capital cost of these projects is now expected to increase from Rs. 115 crores to Rs. 136 crores. Planning is in progress to increase capacity at the Mancherial and Sevalia works by a total of 1.65 lakh tonnes per annum. The company's present installed capacity is around 75 lakh tonnes.

With the construction activity in the country outpacing the expansion of cement production capacity, the demand for cement will continue to remain strong. This explains the buoyancy in cement shares — and the shares of ACC in particular — in the recent months. The expected partial decontrol of cement, with one-fourth of the production allowed for free sale, should give a further boost to the industry. ACC, which is engaged in a major programme of expansion, should greatly benefit from the new policy.

Kirloskar Brothers Sales, Profit Up

Kirloskar Brothers Limited has recorded higher sales and profit during the year ended July 31, 1981. The company's "sales and other income" rose from Rs. 47.54 crores to Rs. 52.36 crores. Its pre-tax profit stood at nearly Rs. one crore, against Rs. 83 lakhs in the prrvious year. The company is paying an equity dividend of 15 per cent for the year. The company's export sales improved from Rs. 3.17 crores to Rs. 3.31 crores, despite the prevailing recession in the markets abroad. The company's recent issue of convertible debentures for Rs. 1.50 crores, bearing 13½ per cent interest, was over-subscribed.

CAFI Records Big Spurt in Sales

The sales of Chemicals and Fibres of India Limited during the year ended September 30, 1981, stood at Rs. 65.61 crores, compared to Rs. 43.40 crores in the previous year. Its profit has also showed a marked improvement from Rs. 55 lakhs to Rs. 1.95 crores. The dividend is maintained at Rs. 1 per share. In terms of volume too, the company's sales show an improvement. From 5,065 tonnes, the sales rose to 7,115 tonnes. This is mainly due to the fact that though polyster fibre is still on the list of O.G.L., imports have come down due to higher prices abroad. The prevailing high level of excise duty on the product continues to inhibit demand. The company's export earnings stood at Rs. 63 lakhs.

KAP Steel Diversifies Earns More

During the year ended June 30, 1981, KAP Steel Limited recorded a 50 per cent increase in its turnover. From Rs. 6 crores in 1979-80, it rose to Rs. 9 crores. The profit, after depreciation, stood at Rs. 89 89 lakhs against Rs. 71.75 lakhs in the previous year. The equity dividend is maintained at 12 per cent. KAP Steel, one of the leading mini steel plants in South India, has taken on hand an ambitious diversification programme with a capital outlay of Rs. 5.10 crores. The company has submitted an application for 100 per cent additional capacity. The existing melting capacity of 30,000 tonnes, when augmented to 60,000 tonnes per annum shortly, will be supplemented by a similar capacity in the rolling mill. The company proposes to manufacture alloy steel of various grades and sizes.

Suri and Nayar to Develop New Diesels

During the year ended July 31, 1981 Suri and Nayar Limited achieved a turnover of Rs. 6 crores as against Rs. 5 crores achieved during the previous year. The compay has shown a steady improvement in production and sales despite the fact that in the latter half of the year, it faced acute power shortage. The company proposes to develop prototypes of one 650 HP Diesel Hydraulic and one 650-HP Diesel Electric Locomotives as part of its Research Programme. The Government has approved the programme. By virtue of this, the company qualifies for 125 per cent rebate under the Income-Tax Act 1961 on the expenditure involved in the Research Programme. The company's gross profit stood higher at Rs. 97.03 lakhs, against Rs. 95.45 lakhs in the previous year. It has paid an equity dividend of Rs. 1.40 per share.

SOUTHERN
ECONOMIST

February 15, 1982

CONTENTS

EDITORIAL 1
Thought for Budget Day
Now, It is Gundu Rao's Turn

CURRENT TOPICS 3
Banks' performance in 1981; Pre-budget levies; Indo-Pakistan Trade; Sugar Policy Changes; South-South Dialogue; Karnataka Power Crisis; Indo-U. S. Trade; Cauvery Dispute

They all Enjoy the Bear Hug 8
By K. N. S.

GLASS HOUSE GOSSIP 9

SPECIAL ARTICLES 11
Relevance of Supply-side Theory to India's Economic Situation
By Bani Majumdar
An Approach to Energy Crisis in India
By L. S. Singh
Unemployment and Population Growth: Is there a Causal Relationship?
By R. D. Kardegouda
Employment of Children in Different Occupations — Study of its Pros and Cons
By A. N. Sadhu and Amarjit Singh
Black Money—Where it Originates and How it Circulates
By B. M. Jauhari

BANKING WORLD 26

PUBLIC SECTOR 27

COMPANY NOTES 28
Glaxo Laboratories; Herdillia Chemicals; Shree Vallabh Glass

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone : 52330

Published on
1st and 15th of every month

Subscription Rates :
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Thought for Budget Day

THERE is something to Mr. R. Venkataraman's aside that he was transferring his sleepless nights to his successor. Though not an insomniac, Mr. Pranab Mukherjee has enough to worry about. The difficulty lies not in arriving at the same amount on both sides of the nation's balance sheet but in how it can be done. To start with, he has to decide as to how much deficit the economy can take. Dr. Lakdawala has suggested Rs. 1,000 crores as the outer limit. It would be good if Mr. Mukherjee took this advice but deficits of the past three years have already set a pattern which he may find it difficult to change. He may then get used to the idea of leaving a budgetary gap of some 2,000 crores. If he opts for this course, he will be losing part of his credibility as a Finance Minister who is determined to fight inflation. It will be a pity if he lets things take their own course, in his very first budget.

Mr. Mukherjee's main challenge comes from *Yojana Bhavan*. The Planning Commission had estimated the resources for the Sixth Plan at 1979-80 prices, taking into account a certain order of price-rise in 1980-81. Even so, the planners' ability to raise resources is likely to get eroded at least to the extent of some 30 per cent. This is another way of saying that if the planners are keen on keeping the physical targets in tact, the real resources that need to be raised to reach these targets warrant a 30 per cent step up in the present plan outlay of Rs. 97,500 crores. The first two annual plans have already been mauled out of shape. And if Mr. Mukherjee is keen on undoing the damage done to these annual plans by inflation, he may have to provide for a substantial increase in the outlay for the 1982-83 annual plan. In all probability the Finance Minister may not concede such an increase, since he is already committed to the position that there can be no further upward revision of the Sixth Plan outlay.

This is where Mr. Mukherjee's real troubles start. The truth is that if Mrs. Gandhi's new 20-point programme is to be implemented successfully, as an integral part of the Sixth Plan, there will have to be some alterations in the plan priorities, together with appropriate changes in the sectoral outlays. Even a cursory glance at these new 20 points reveals that the outlay on irrigation, power, family planning and rural development will have to be protected, in real terms and in some cases, stepped up, again in real terms. Some one in the Finance Ministry will have already told Mr. Mukherjee that it would be futile to think that one can make omelette without breaking eggs and that the only way of effectively implementing the new 20-point programme is to step up the Sixth Plan outlay by at least 30 per cent so as to cover the increased cost of acquiring real resources.

Even if inflation is held below, or close to, two digits, Mr. Mukherjee will find it difficult to solve the resources riddle since there is no means by which non-inflationary financing can be done. If he takes the easiest course open to him, namely, the adoption of a monetarist policy, setting rigid limits for the growth of money supply, he will be disturbing a veritable hornets' nest, inviting the wrath of the planners and the enthusiasts of the 20-point programme. Much as he detests the thought, Mr. Mukherjee is very much a political creature, more so since he is close to the ears of the Prime Minister. A sound budget will be a very unpopular budget. This can be easily explained. A major item of expenditure, namely, administrative expenditure, has a tendency to rise in geometric progression, as is evident from the need to give additional dearness allowance in successive instalments. By temporarily freezing it, the Finance Minister can reduce the budgetary gap and, in the process, dampen inflation but white collar unions will not allow him to do that. In the same way, he will not be in a position to set a limit to the outlay on Defence, which remains a sacred cow.

Again, Mr. Mukherjee is aware—if he is not, he will have been told about it by Mr. L. K. Jha—that the private sector is very much an integral part of the scheme of the Sixth Plan investment and failure of the private sector to reach the goals assigned to it would amount to a failure of the plan itself. Out of a total plan outlay of Rs. 1,72,210 crores, the private sector accounts for Rs. 74,710 crores or 47 per cent of the outlay. The hard core of this outlay consists of Rs. 5,710 crores of retained profits and Rs. 3,160 crores of depreciation provision, both totalling Rs. 8,870 crores. The first two budgets of the Sixth Plan period were, by a large, investment-oriented. And it must be said, in fairness to Mr. R. Venkataraman, that he made an earnest beginning, in his two budgets, in the direction of lightening the burden of corporate taxation and providing reliefs to companies. The beneficial effects of these reliefs are seen in the revival of the capital market in the country.

Considering that the private sector has a major role to play in ensuring the success of the Sixth Plan, it is only logical to expect Mr. Mukherjee to continue the policies adumbrated in the budgets of his predecessor. He needs to be told, in this connection, that President Reagan's supply side economics proved ineffective because tax cuts were not accompanied by expenditure cuts to the desired extent. American experience has some relevance to the Indian situation because, while there is a genuine need to reduce the tax burden on the corporate sector, there is also an equally urgent need to effect economies in public expenditure, if only to keep the budgetary gap within prudent limits. This, and the need to observe IMF norms for ensuring controlled growth of money supply, will provide the background against which Mr. Mukherjee has to formulate his budget proposals.

Now, it is Gundu Rao's Turn

CEMENT is in the news again. In what looks like a re-enactment of the sordid Antulay drama, in a low key, the Chief Minister of Karnataka, Mr. R. Gundu Rao, is accused by the Public Accounts Committee of diverting part of the cement quota allotted by the Centre for the State Government's use, to builders of high-rise apartments in Bangalore. The quantity involved, in this instance, is relatively small — it is 4,000 tonnes compared to many times this quantity misused by the Antulay Government — but this does not minimise the seriousness of the impropriety allegedly committed by the Chief Minister, at the instance of his colleague, the Civil Supplies Minister, Mr. Manikrao Patil. Indeed, the strictures passed by the Public Accounts Committee read like extracts from judgement of Justice Lentin, in the Maharashtra cement case.

Three points await Mr. Gundu Rao's rebuttal. First, whether any violation of the prescribed rules and procedures was involved in the diversion of 4,000 tonnes of cement, out of a special allotment of 10,000 tonnes by the Centre, to private builders; second, to what extent such diversions caused delays in the construction of the on-going irrigation projects which were given one lakh tonnes less than their entitlement and third, whether the construction of high-rise buildings in Bangalore deserved a higher priority than the needs of educational institutions, hospitals and ordinary house owners.

Furthermore, it is also a point for consideration whether, as hinted at by PAC, any *quid pro quo* is involved in these allotments to 30 builders. Mr. Gundu Rao also owes it to the public to explain why there was a phenomenal rise in the allotment to the so-called bulk consumers while the releases to priority areas fell precipitously. The Chief Minister is entitled to a fair hearing on the issues of grave public importance raised by PAC. If he thinks he is being subjected to a witch hunt, he can tell his side of the story before the State Assembly, which is now in session. We concede what many observers say, namely, that Mr. Gundu Rao is an able administrator and is less prone to corruption than many of his predecessors. But, to use an oft-repeated cliche, he should be, like Caesar's wife, above suspicion. He should uphold the highest tradition of public probity and act, before events overtake him.

SOUTHERN ECONOMIST
BUDGET NUMBER
(MARCH 15, 1982)

The issue of *Southern Economist* dated March 15 will be devoted to an analysis of the Union Budget to be presented on February 27. It will contain the text of the Finance Minister's budget speech and reactions of economists to the budget.

The special issue will be priced Rs. 5, but the subscribers will get their copy in the usual course.

— PUBLISHER

CURRENT TOPICS

1981 Was Difficult Year For Banks

THE nationalised banks are notoriously slow in releasing figures pertaining to their performance in the previous year. Even so, one can discern broad trends which indicate a slow down in the rate of growth of deposits, an increase in the rate of growth of advances and a possible erosion in their profitability in 1981. This was only to be expected in the context of continuing inflation, a credit policy which severely restricts the manoevrability of the banks in respect of the amounts they can lend and the general rise in banking costs.

Deposits of the banks have risen by around 18 per cent, against a little more than 19 per cent in 1980. The main cause of the deceleration in the deposit growth is the erosion of savings caused by inflation but there was also the fact that part of the deposits got deflected by the bearer bonds scheme, the soliciting of deposits by many joint stock companies with the offer of a higher rate of interest and the issue of convertible debentures by several leading companies. The ceiling on interest paid on bank deposits (three years and above) is 10 per cent whereas the others offer three to four per cent more.

True, the rate of growth in advances was close to 20 per cent, against a rise of 14 per cent in 1980. This has not helped the banks since the increase is largely accounted for by sectors which enjoy concessional rates of interest. For instance, food credit has recorded a sizable increase in 1981, against a marked decline in the previous year. The present credit policy of RBI is hurting the banks in two ways: Firstly, they have to deploy the bulk of their funds in priority sector advances which carry concessional rates of interest. Secondly, the higher cash reserve ratio and statutory liquidity ratio have further affected their earnings. The SLR stays at 35 per cent of the deposits while CRR will shortly go up from 7.75 per cent to 8 per cent. Half way through the busy season (November—April), when the demand for credit should be at its peak, the banks are finding themselves in a veritable squeeze. Periodical injunctions by the Reserve Bank about the guidelines the banks should observe in regard to the recommendations of the Tandon Committee and now, the Chore Committee, have tended to narrow their options further.

Nursing of sick units must have cost the banks a fortune. Neither the losses incurred on sick units nor the bad debts emanating from the area of farm credit do not normally get reflected in published balance sheets of the banks. One can only proceed on the assumption that what is not visible to the naked eye does not exist. In a capitalist system, the banks cannot afford to remain perpetually in the red. They go bust and close their shutters. In our system geared to socialism (could that be a euphemism for mismanagement?) this will not be allowed to happen. Public ownership is an insurance against failure.

Pre-Budget Levies : New Trend

IT is a sign of the cynicism that prevades the corridors of power in Delhi that increased levies are announced in an *ad hoc* manner, at any time of the year. The annual budget seems to have lost its sanctity. Take the case of the Railways first. By way of a parting gift, Mr. Kedar Pande, who is now shunted on to Irrigation from Railways, announced an additional levy of 10 to 15 per cent with effect from January 1, 1982. The point made by the Railway Minister that this levy would not add to inflation is, on the face of it, untenable. Considering that the bulk of the goods is moved on the railways, a 10 to 15 per cent increase in the cost of transport is sure to get similarly reflected in the price of the product sold in the market. The Minister has pointed out, in justification of the new levy, that the Railways were saddled with an additional burden of Rs. 245 crores which was not anticipated in the 1981-82 Railway budget. Even assuming additional earnings of Rs. 170 crores over and above the budgeted figure, the gap to be covered stood at Rs. 75 crores. Therefore, Mr. Pande said, the new levy to net in Rs. 80 crores in the last quarter of the current year became unavoidable. Could this not have been done in the Railway budget proper, which is only a few weeks away?

The Railway Minister was not alone in adopting this questionable stratagem. On February 2, barely four weeks before the budget day (February 27), the Government announced stiff increases in postal, telephone and telex rates to net in Rs. 100 crores in a full year and Rs. 9 crores during the current financial year. Normally, changes in the postal tariff are announced at the time of presenting the Union budget. The revised rates, which are very stiff, come at a time when the services of the telephones and postal departments have shown a steady deterioration. Why should the subscriber be made to pay a heavy rental when telephone billing is often done erratically, a good percentage of the calls made land on wrong numbers and when complaints of faults remain unattended for days on end? The telephone rental, in a metropolitan area, has been raised from Rs. 800 to Rs. 1,200 per annum, with free calls allowed going up by 200 for an year. On the postal side, the registration charges have been raised by 50 paise per article, the rates for money orders have been hiked and the amount paid for telegrams has also been stepped up. Despite the protestations of the Communications Minister, Mr. C. M. Stephen, to the contrary, the increases in postal and telephone rates cannot but be inflationary.

The figures given by the Communications Minister in justification of the additional tariff will have to be read with caution. It may be true, as Mr. Stephen says, that the cost per telephone in a big city works out to Rs. 1,300 per connection but the Department must be making profit in other areas. Again, the Minister is right in pointing out that the Department is losing heavily on the postal side — in 1981-1981 it faced a deficit of Rs. 126 crores on the postal side, even with the new tariffs — but what about the items which are bringing in a sizable profit?

The complaint of the users of the telephone and postal services is not that a given level of tariff is too high. It is that service provided does not correspond to the rate charged. For a country which is exporting know how to many nations of the Third World—both the Railway and P&T are earning sizable foreign exchange through such exports—the way the Railways, the telephones and the postal service are run in India is a disgrace. Cost ts not merrely a product of inflation; it is a function of efficiency. Even the hard-nosed IMF experts will concede (assuming that all this is done to impress the Fund from whom we have taken a hefty loan of $ 5.7 billion) that the cost-plus formula in pricing is valid only where costs do not cover up inefficiency.

Imbalance in Indo-Pak Trade

THE distortions that are in evidence in Indo-Pakistan trade are not likely to be corrected in the near future. This is evident from the manner in which the Pakistani officials who came with their Foreign Minister to India last month side-tracked the issue. It is simply that the political will to improve the trade volume is not just there. The extent of the trade imbalance can be seen from the fact that while India imported Rs. 100 crores worth of goods from Pakistan in 1980-81, she exported only Rs. 20 crores. In 1979-80, India's imports from Pakistan stood at Rs. 24 crores, compared to exports worth Rs. 9 crores to that country. This, in itself, should not be a matter of great concern to India since she runs a sizable trade surplus with many neighbouring countries, including Bangladesh, Nepal and Sri Lanka.

Nevertheless, India's trade relations with Pakistan is worth examining, if only to see how political impediments to trade can neutralise comparative advantages. The trade agreement with Pakistan (1975), which made possible exports by private sector firms, lapsed in 1978. Now after nearly four years, it is proposed to consider normalisation of trade by a joint commission. At private level, a team of the Federation of Indian Chambers of Commerce and Industry is visiting Pakistan shortly to study the issues relating to India's exports to and imports from that country. By implication, the very visit of a high powered private sector team will highlight the illogicality of preventing private Pakistani firms from participating in trade with India. Pakistan, to be sure, is not a socialist country.

Among the other hurdles, mention may be made of Pakistan's reluctance to accord the same treatment to India that she accords to other countries in respect of her imports. For instance, Pakistan has a free import list extending to some 400 items but India figures only in 50 of them. On the other hand, India's O.G.L. is non-discriminatory. The nascent industry argument which Pakistan may put forward in the case of the import from India of industrial products does not sound logical since no protectionist barrier has been erected in respect of similar imports from other countries. Indeed, there was every justification for widening the two-way trade on the basis of complementarity and in the true spirit of south-south cooperation. From the point of view of the consumer in Pakistan, it does not simply make sense to import an industrial product from say, Japan or South Korea, when a similar product is available, next door, in India. *Ceteris paribus*, the difference in the transport cost tilts the scales in favour of a neighbouring country. Again, Pakistan is quite illogical in demanding preferential treatment for some of her export items (e. g. handicrafts) which do not find a place in the list of India's imports. It would be like Sri Lanka insisting on preferential treatment for her tea exports *vis a vis* India.

That Pakistan is not bargaining from a position of strength will be evident from the nature of her major exports to India. For all the items that India imports from Pakistan—naptha, furnace oil, rock salt, cotton and pig iron, to mention a few of them—There are alternative sources. India does not have to import petroleum products from Pakistan since she has enough refining capacity within the country. The same goes for cotton and pig iron. This is precisely where trade agreements play a useful role. Under such agreements, the lists of imports and exports are agreed upon not on the basis of essentiality but on the basis of complementarity, reciprocity and goodwill. In the normal course, it would be a healthy thing (for both the countries) if India runs up a sizable trade surplus with Pakistan and if attempts are made by both to bring down this surplus to zero over the years. By importing high cost items from far-away countries, Pakistan has thrown to winds the sound concept of comparative costs. The people would not have allowed it if Pakistan was not under a dictatorship.

Why This Scarcity Psychology in Sugar ?

ALTHOUGH sugar production in the current season (October 1981-September 1982) is estimated to reach 67 lakh tonnes, on a conservative reckoning, compared to 51 lakh tonnes in 1980-81, the price of free sale sugar has not come down to a level which can be considered reasonable. The price is still close to Rs. 570 per quintal. Incidentally, the ratio of levy and free sale sugar, under the present system of dual pricing, stays at 65:35. Two reasons explain the stickiness of free sale sugar prices. Firstly, the *ad hoc* approach followed by the Government in fixing monthly quotas for releases often helps the traders' lobby. Secondly, when the prices of most articles in the food group go up, sugar prices too tend to increase. With larger releases and a decline in the prices of other sweetening agents (*gur* and *khandsari*) free sale sugar prices should come down to around Rs. 500. Since the average citizen can buy the bulk of his requirements at the fixed levy price of 3.65 per kg., the fluctuations in the 'free' market may not be of much consequence.

The overall supply position seems to be satisfactory. The total quantity available in the current sugar year should be close to 80 lakh tonnes. Actual production may well reach 70 lakh tonnes, against the estimated figure of 67 lakh tonnes. To this has to be added the previous season's carryover of about 10 lakh tonnes. Even allowing for an estimated internal consumption of 57 to 60 lakh tonnes, the industry will be left with a sizable carryover of 20 lakh tonnes for the next season, 1982-83. The Indian Sugar Mills Association, which is accused of crying wolf all too often, is not happy with the pricing mechanism. It complains that the unrealistic manner in which sugar cane prices are fixed — this year's statutory minimum is Rs. 13 per quintal, based on a recovery of 8.5 per cent — leads to undesirable fluctuations in cane acreage, year to year. The minimum price being a notional price, nothing prevents the sugar mills from offering a higher price to the grower. The sugar lobby has often complained that a major reason for the low level of production, in a lean year, is the pre-emptive purchases of cane made by the *gur* and *khandsari* manufactureres, at higher prices. It has further argued that since 65 per cent of the production has to be sold at fixed 'levy' prices, the sugar mills will not be in a position to offer competitive prices for cane. This shows that logic has seldom been the strong point of ISMA.

Nevertheless, the sharp fluctuations in came productions need to be taken note of. From 154 million tonnes in 1976-77, sugarcane production rose to 177 million tonnes in 1977-78. It again declined to 152 million tonnes in 1978-79 and further to 128 million tonnes in 1979-80. It was 151 million tonnes in 1980-81 and is estimated to go ap to 180 million tonnes in 1981-82. These fluctuations are bound to continue since cane acreage in a given year is dependent not only on the price of sweetening agents in the preceding year but on the price of other competing crops like rice or wheat. Given this limitation, one cannot find fault with the Government's policy which allows new and expanding units higher free sale quota. That means, in a rising market, these units can, by a larger 'free' sale, make up the 'loss' they may sustain on 'levy' sugar.

Furthermore, the criticism that the Government has been too liberal in licensing additional capacity does not hold water. The Sixth Plan target of 80 lakh tonnes — against the present capacity of about 60 lakh tonnes — cannot be considered as over-liberal. In a largely sick industry like sugar, it is difficult to correctly estimate the capacity. A good percentage of the machinery in the old mills may be due for scrapping. Besides, the manner in which sugar production and stocking is financed in this country leaves a great deal to be desired.

South-South Dialogue At New Delhi

MODERATION in highlighting the significance of the South-South conference being held at New Delhi next week is in order. It is one thing for the nations of the under-developed "South" to meet and discuss a common strategy *vis a vis* the "North" and quite another thing to look for a satisfactory solution to the problems facing them only through mutual co-operation. The main forum for a North-South dialogue remains UNCTAD but, despite the militancy displayed by the "group of 77", now actually numbering more than 100, has not brought about any radical change in the attitude of the industrialised nations. Periodical meetings of non-aligned nations too have not led to any marked improvement in the climate for a larger volume of trade and aid.

One of the reasons which prompted India to convene the South-South conference is the failure of the North-South summit held a Cancun, Mexico, in October last year. Although the leaders of the developed and developing nations who met at Cancun agreed on the need to continue the dialogue in the forum of the United Nations, the North, as a group, dragged its feet on issues like the stepping up of official aid to LDCs and the launching of an energy affiliate of the World Bank. India, as a leading spokesman of the South, had submitted a 5-point action programme at this summit. The programme touched upon issues iike the conclusion of new commodity agreements, early activisation of the Common Fund for stabilising commodity prices, enlarging the scope of GSP, and reduction of non-tariff barriers. Not surprisingly, consensus was lacking on any of these proposals.

With the industrialised countries going through a prolonged recession, coupled with high rates of inflation and unemployment, there is hardly any immediate prospect of their lowering protectionist barriers and increasing aid to developing countries. With the terms of trade continuing to run against primary commodities, the non-oil producing developing countries are facing a widening balance of payments deficits. Since the outlook for improved aid and enlarged trade appears dim, the LDCs are looking for other means to overcome their economic difficulties.

The New Delhi meeting of 34 developing nations, carrying the catchy title of South-South dialogue, can be expected to shift the spotlight from North-South co-operation to co-operation among the developing countries themselves. The meeting acquires added significance since China — the largest developing country — has also been invited to participate in the deliberations. Although the problems facing the LDCs cannot be tackled in isolation, without the co-operation of developed nations, a larger volume of trade and more fruitful exchange of know-how among themselves will reduce their dependence on the West.

Some of the nations of the "South" have taken great strides in industrialisation. India, for instance, is ranked 10th among the industrialised countries although in terms of *per capita* income, she is bracketed among the poorest. India, with her sizable reservoir of technical man-power and mastery over intermediate technology, is in a position to assist in the industrialisation of other Third World nation which are cutting their milk teeth in modernisation But the value of South-South co-operation can be easily exaggerated. The production-pattern in many of the developing countries is competitive rather than complementary. That being so, they have to necessarily look up to the industrialised North for the sale of their products although the long-term goal is to bring about a structural transformation in the LDCs.

Spectre of Power Cuts In Karnataka

INDUSTRIAL and domestic users of power in Karnataka are hardly likely to derive satisfaction from the increase of nearly 1000 mW in installed capacity projected for the Sixth Plan. The increase in the capacity from 1,605 mW to 2,530 mW will materialise only if the two major on-going projects, namely, Kalinadi and Raichur, are commissioned according to schedule. In the immediate future, there is no prospect of any great improvement in the supply position since the first three units of Kalinadi (Stage I), though ready, have not started generating power due to engineering problems encountred at the project. As for the Raichur thermal station, the state has still to wait for two years for its first two generators to be commissioned. On paper, at any rate, Kalinadi (Stage II), Gangavali and Varahi hydel projects should together add 727 mW of capacity to the state's power system by 1988. This will be in addition to what Karnataka is entitled to, from the Ramagundam super thermal station (2,100 mW) and the second station at Neyveli (630 mW) — both coming up in the central sector. If intere-state differences can be sorted out, Karnataka can also hope to benefit from the proposed hydel project at Hogenakal, on the Tamil Nadu border.

Be that as it may, expectations that the state may not face any serious power cut in the summer months of 1982 are belied, largely because of the sharp rise in the peak demand which cannot be met even if Sharavathi continues to work to full capacity. Indeed, had the Linganamakki reservoir not been full this year, the state would have faced an unprecedented power crisis now. The State Electricity Board has started resorting to load shedding since January, to cope with the widening power gap. The present shortfall, which is of the order of 5.5 million units per day, will be covered to the extent of 1.5 million units from Andhra Pradesh and 2 million units from Kerala. The state — particularly the state capital — can avoid serious cuts in power supply and annoying load shedding if the power systems in the two neighbouring surplus states function without any serious break down. That remains a big "if". Much also depends on how quickly the Karnataka Power Corporation re-commissions the run-of-the-river generators at Kalinadi and the three malfunctioning generators at Sharavathi.

Improving Indo-U.S. Trade Relations

THERE is a revival of interest in Indo-U.S. economic relations. This is helped by (a) the keen interest evinced by the new U.S. Ambassador, Mr. Harry Barnes in widening the area of co-operation between the two countries (b) the good work that is being done by the Indo-U.S. Business Council and (c) the constructive attitude taken by the top officials of the U.S. Department of Commerce towards India's needs.

America remains India's largest trading partner, accounting for 10 per cent of India's imports and 12.5 per cent of the country's exports. Even so, recent trends are disturbing. While the trade was balanced in 1979-80, India's exports to U.S. witnessed a sharp decline while her imports from that country rose substantially in 1980-81. Furthermore, India's share in the U.S. global trade has witnessed a steady decline. It is now a miniscule 0.5 per cent. This explains why India is keen on taking a close look at the hurdles that stand in the way of improving this share to a respectable level.

It is gratifying that the Indo-U.S. Business Council thrashed out these issues in a spirit of give and take, at its recent meeting held in New Delhi. The two sides recognised the need for forging a bilateral agreement for the export of textiles from India within the frame-work of the recently renewed Multifibre Agreement. The quantum of textiles that India can export to the United States depends, among other things, on the state of the recession in that country. This and other issues related to trade will be discussed at the annual meeting of the Indo-U.S. economic and commercial sub commission, scheduled for next week. India can also be expected to plead for a widening of the scope of the generalised scheme of preferences so that more items can be exported duty-free under GSP. If India's products are to find ready acceptance by the Americans, our exporters should strive to further improve the quality of the products they export. They need to (a) conform to standards (b) export in the volume the Americans need and (c) discard the present stop-go approach.

In the area of economic co-operation, the Americans seem to be impressed by the recent changes in India's policy both towards imports and towards foreign collaboration. There has been a marked improvement in the U.S. investment in India, as is evident from the rise in the number of collaboration deals from 25 to 60 last year. If what the U.S. spokeman, Mr. Orville Freeman, observed at last week's meeting of the Joint Council is any indication, the Americans want a more demonstrable shift in New Delhi's policy towards the right. For instance, they want the abolition of FERA which limits the share of foreign companies to 40 per cent. Businessmen of the two countries are also interested in collaborating in construction and other projects in Middle East. The forthcoming conference of U.S. and Indian businessmen to be held in the United States later this year will provide an opportunity to the two sides to discuss these and other related issues more thoroughly.

Unseemly Tussle Over Cauvery waters

THE Tamil Nadu Chief Minister, Mr. M. G. Ramachandran's threat to take the cauvery waters dispute to the Centre is hardly calculated to furthering the cause of good neighbourliness. The earlier rounds of talks on this issue, held at the Centre's initiative, went off without any major hitch and differences, if any, could have been thrashed out at the next meeting, scheduled for April. It is not as if the major parties to the dispute, namely, Karnataka and Tamil Nadu have reached a *cul de sac*. Basically, the differences pertain to the quantum of dependable flow, the permissibility of diverting the water outside the Cauvery basin, tapping other sources of water in Tamil Nadu to augment the supplies from Cauvery.

These points are capable of being sorted out at further inter state meetings. A fact which MGR is not prepared to concede is the inequitous nature of the 1924 Agreement concluded when Madras presidency was under direct British rule. Enough details have been unearthed by experts about the areas irrigated in the two states, water originating in Karnataka and Tamil Nadu, availability of other sources and the arid areas in the Cauvery basin, in the respective states. The only new irritant that has been added to the 7-year old dispute is the proposal of the Karnataka government to to take up the Mekedatu project, across the river, to generate power. Tamil Nadu too favours the idea of generating power in this stretch of the Cauvery but prefers another site, namely, Hogenakal, within its border. Karnataka's contention is that it is possible to generate more power (291 mW) at Mekedatu than at Hogenakal (201 mW). If MGR's argument that impounding the water in a reservoir at Mekedutu would affect the interests of the agriculturists in the Thanjavur delta is valid, will not the same apply to a dam at Hogenakal?

They all Enjoy the Bear Hug

By **K. N. S.**

IN a sense, the Vijayawada congress of the Communist Party of India (Marxist) marks a turning point in the post-independence history of the communist movement in India. The congress marked a complete reversal of the line that this faction of the communist movement took after its break away from the main party, CPI, in 1964. At Vijayawada, the party took a complets U-turn from a pro-Chinese stance to an affirmation of the Soviet position in ideological polemics. To be sure, the change of policy did not come about all of a sudden.

From an out-and-out anti-Russian and pro-Chinese position the party had taken at the time of the split, CPI (M) travelled a long way to reach the point of equidistance in 1978 when, at its Jullundur session, it condemned Russia for its "revisionism" and China for its "dogmatism" — whatever these expressions may mean. Given the fact that policy gyrations of communist factions in India are largely polemical — hence unrelated to the realities of life — the latest policy change should not be torn out of the context of the global cross-currents in communist ideology. In particular, two major developments—both of the seventies—need to be taken into account. In Europe, the communist parties continue to differ on whether there should be only one point of reference, namely the U.S.S.R., or whether they can also look to China for inspiration.

Polycentrism was no longer taboo and Eurocommunism signalled a mini revolt against the Kremlin's leadership. While the French Communist Party, under its leader, Marchais, continued to toe the Moscow line, the parties in Italy, under Berlinguer's leadership and in Spain, under Carrillo's banner, followed a more liberal (and less orthodox) line which implied, among other things, co-operation with bourgeiosie groups. In Asia, the death of Mao, the leader of the Chinese communist movement, caused a more or less similar change in the attitude of the party's leadership. This is exemplified by the trial of the "gang of four" and the opening up of the Chinese economy to the influence of the West—notably the United States. Another development that has a bearing on the attitude of the communist parties of the Asian continent is the emergence of Viet Nam as a major Third World power and its close relationship with the Soviet Union. Barring its anti-American stance traceable to its long war with the United States, the ideological position of the Viet Namese Communist Party is indistinguishable from that of the communist parties of, say, U.S.S.R. or China.

Also of some relevance to policy formulation by the other communist parties is the direct support that Viet Nam gave to the forces which opposed the barbaric regime of Pol Pot in Kampuchea and the installing of what many would call a "puppet" regime in Phnom Penh. As opposed to this, the Chinese have adopted a policy hostile to the Heng Samrin regime and, as a logical corollary, continue to give support to the Khmer Rouge which, surprisingly, has the backing of the member-nations of ASEAN and of many "capitalist" countries.

One may also mention two other major events in the communist world, which have influenced ideological adjustments among the communist parties. Here, I am referring to the Soviet invasion of Afghanistan, ostensibly to support the Babrak Karmal regime, and the rumblings within the Warsaw Pact countries — notably in Poland. Ideological affinity notwithstanding, several communist parties, both within Eastern Europe and in other countries, have come out strongly against the Russian intervention in Afghanistan. And surprisingly, some communist parties which had adopted a liberal policy in regard to many international issues, have chosen to condone Russia's action.

So long as the Marxist-Leninist dogma permits the "export" of revolution (it is nothing but a cover for furthering a policy of expansionism) communist parties seem to consider that it is their duty to support such aggressive actions by Russia, if only in furtherance of the cause of world communism. In Poland, the dominant trade union organisation, Solidarity, has been waging a ceaseless struggle to change the character of the communist government in that country. The whole process (towards democratisation) has received a setback as a result of the clamp-down by General Jaruzelski and suppression of dissent there. That it has been done at the prodding of Russia goes without saying. Hard-line communists everywhere have supported this action by the Polish Communist Party leadership to re-assert its authority in the nation's affairs.

The decisions taken at the 11th congress of CPI (M) at Vijayawada have to be viewed in the light of these global developments. History alone can judge whether the decision to get back into the fold of Russia would prove to be as fatal (to the party's future in India) as was the decision of the united party, during the second phase of World War II, to support the war effort after Hitler invaded Russia. On the purely theoretical plane, the tilt towards the Soviet Union and the abandonment of polycentrism sounds logical since it is consistent with the party's anti-imperialist stand. By the same token, its condemnation of China for its collaboration with the "imperialist" America also looks consistent. But, shorn of tautology and ideological clap-trap, the new policy of CPI (M) betrays a lack of understanding of the real problems facing the country. Its anti-authoritarianism at home is in depressing contrast to its pro-Soviet policy on Afghanistan and Poland.

Glass House Gossip

TRAIN disasters occur so frequently these days that I am finding it difficult to keep count of them. If one includes the disasters averted in the nick of time, one can say that the average works out to one a day. This is a shameful record for the Indian Railways which have helped many Third World countries to lay new railway lines and to run them the way they should be run. The latest to occur was near Agra, on January 27. It took a heavy toll. I cannot give the exact figure since the railways seldom give correct information about casualities. The accident occured because, may be, there was a signalling defect, which caused the Delhi-bound Dakshina Express to crash into a goods train coming from the opposite direction. If it is not signalling defect, it is because of human negligence.

I see a pattern in these accidents. They take place either because of "human failure" or because of the poor maintenance of the tracks. The morale is so low among our railway men (don't ask me why) that they are indifferent to what happens to the passengers. I do not have much sympathy for them. Every one of them is keen on making a quick buck — be he the station master, the TTE or the porter. Mrs. Gandhi ought to have realised, by now, that merely by putting a new Minister in Rail Bhavan, she cannot change the manner in which the Railways are run. Serious accidents occured during Pandit Tripathi's time too. He was made a scapegoat and sent out. In came Mr. Kedar Pande. Nothing seems to have changed during the time when he held *durbar* in Rail Bhavan. Now comes Mr. P. C. Sethi. The other day, Mr. Sethi gave a pep talk to the heads of the zonal railways — the usual "dos" and "don'ts". I am less than honest if I say that Mr. Sethi will set the Ganges on fire.

With all my respect for that gracious lady, Mrs. Gandhi, I sometimes feel that the country is slowly slipping into the hands of lawless elements. Travel by train was never as unsafe as it is today. In between stations, alarm chains are pulled, dacoit gangs enter trains, loot passengers at the point of gun and disappear into the darkness. Robberies and decoities are on the increase. They numbered 223 in 1978, 253 in 1979 and 351 in 1980. Upon October 31, 1981, there were 313 such cases on our Railways. Things have come to such a pass that a person who boards a train is not sure of reaching his destination — all in one piece. If I am exaggerating, Mr. Sethi has every right to pull me up.

□ □ □

RAGGING as an institution did not exist in the late forties when I studied in the college. If it had existed, may be, I wouldn't be writing this column today. I can straightaway tell you what I would have done. I would have discontinued my studies and got into a job in this wicked, wide world. Ganesh Babu of the J.J.M. Medical College of Davangere — the place is in Karnataka — went a step further and ended his life. I wouldn't have done that. I am a coward when it comes to hurting myself, let alone inflicting a fatal injury on myself.

Be that as it may, Ganesh Babu's class mates and hostel mates have not exactly covered themselves with glory by doing the things they did to Ganesh Babu. If you ask me, I would say in all candour that ragging is an uncivilized institution. I do not see any sociological explanation behind a senior student humiliating or bullying his junior. Why should the seniors harrass the juniors by making them do things which they themselves would not have enjoyed doing in their fledgeling days in college? Why should they, for example, make them undress in their presence or drink their urine or do such other abominable things?

I am glad our President, Mr. Sanjeeva Reddy, took up cudgels against these bully boys, when he attended a function organised by a local college. This has stirred our educational authorities too, to take action to punish the miscreants engaged in ragging. Please do not think, for a moment, that I am a joy-kill. I am all for healthy, good humoured banter, so long it does not transgress the limits of decency. But I have no stomach for the kind of sadistic activity that goes on in our campus corridors in the name of ragging. Those who indulge in this brutal pastime have no right to enter the portals of our institutions of higher learning.

□ □ □

A good sycophant is not unduly perturbed by snubs or even insults. As a general rule, sycophants have the hide of a rhinocerous and the intelligence of a pig. I do not know whether the Andhra Pradesh Chief Minister, Mr. T. Anjiah, has these qualities in ample measure but the manner in which he made up with Mr. Rajiv Gandhi after the Begumpet airport incident makes me feel that the Andhra leader is not such a bad practitioner of the art.

All is well that ends well. Mr. Rajiv Gandhi's recent visit to Andhra Pradesh did not prove to be such a great disaster for Mr. Anjiah. After all, the snub administered by Mr. Gandhi at the airport did not have a lasting effect. After a bit of sulking, Mr. Anjiah joined the tour of the crown prince, realising that discretion is the better part of valour. I wondered: would T. Prakasam or Pattabhi Seetharamiah have stomached such a snub from, say, either Jawaharlal Nehru or even Mahatma Gandhi? The Andhras, who are known for their quick temper (they eat a lot of chillies and smoke cheroots the wrong way) have degenerated, like their Indian compatriots in the rest of the country. They are as good at spotting the winner and at jumping into his (or her) bandwagon, like the rest of us. Why then blame poor Anjiah?

As for Mr. Rajiv Gandhi's tantrums, I am glad he is slowly becoming allergic to sycophancy. But why did he not display these Nehruvite qualities when he came to Bangalore for the Youth Congress *mela?* True, he *did* decline the offer of Mr. F. M. Khan to drive him in a car decorated and designed to look like an airplane but, otherwise, he seemed to enjoy every bit of the garlanding and slogan-shouting ritual engineered by Mr. Gundu Rao and his colleagues. Why did Mr. Gandhi turn a Nelson's eye to such a vulgar display of slavish, hypocritical admiration by his partymen in Bangalore?

Considering that Mr. Rajiv Gandhi is relatively new to politics, I am prepared to concede that he is a bit slow in learning the finer points of state-craft. On principle, I have nothing against Mr. Rajiv Gandhi, as a citizen of India, contributing his mite in the country's cause. It is up to him to decide whether he is best fitted to play the role of Mrs. Gandhi's trouble shooter. Like it or not, he has become an M. P. by winning a parliamentary election and he is entitled to the privileges that go with the fact of his being a member of Parliament. If he is getting more (of attention) than what is due to him as an M.P., it is because he happens to be the son of the Prime Minister. If he is happy with the role that is thrust on him, he should not seriously object to people to garlanding him or shouting slogans. It is all part of the game.

□ □ □

I am averse to writing 'obits' for a simple reason: The dead do not come back. I honestly feel that if people have nice (or harsh) things to say about a person, they should say it in his presence, when he is alive. There is a lot of hypocrisy about this business—handed down from time immemorial—of eulogising a dead person.

The readers should not think that I am deviating from this belief If I say a few lines about three distinguished persons who died recently. I am referring to the death of Mr. Mohanlal Sukhadia, Mr. Jaisukhlal Hathi and the former Chogyal of Sikkim, which occured recently. Sukhadia was a many-splendoured personality. He was the Chief Minister of Rajasthan for 17 years—quite a long period considering the faction-ridden politics of the desert state. He served his state well. It was not for nothing that Mr. Sukhadia was called the "builder of modern Rajasthan". He will also be long remembered for abolishing *zamindari* and for introducing the Panchayati Raj system in the state. Mr. Sukhadia also served as Governor of Andhra Pradesh, Karnataka and Tamil Nadu. He was an astute politician. Were he not one, he would not have stayed in Mrs. Gandhi's party for such a long time.

No less distinguished was the career of Mr. Jaisukhlal Hathi who served as a Minister at the Centre for 17 years. Starting as a legal luminary, Mr. Hathi drifted to politics early in life. His membership of Parliament covered the entire post-independence period, up to 1969. He headed a committee which examined the affairs of the pharmaceutical industry. The present drug policy of the Government is largely based on the recommendations of this committee. He also served the states of Haryana and Punjab as Governor with distinction. Mr. Hathi's greatness lay in the fact of that he could rise above the din of politics.

Palden Thondup Namgyal, the former Chogyal of the Himalayan state of Sikkim, who died of cancer in New York, last month, was a disillusioned man. The Chogyal, who succeeded his father in 1964 ruled a turbulent kingdom till 1973 when a *coup d' etat* displaced him and brought India's intervention. In his life-time, the Chogyal had to witness the transition of his kingdom from monarchy to become the 22nd State of the Indian Union. Departing from accepted convention, the Chogyal married an American girl—Hope Cooke, in 1963. The marriage lasted till 1978. The Chogyal died a forlorn man.

— Plebeian

Southern Economist

PREMIER FORTNIGHTLY
OF ECONOMIC OPINION

Now in its 20th year

Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.

Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

Relevance of Supply Side Theory to India's Economic Situation

By **Bani Majumdar** *

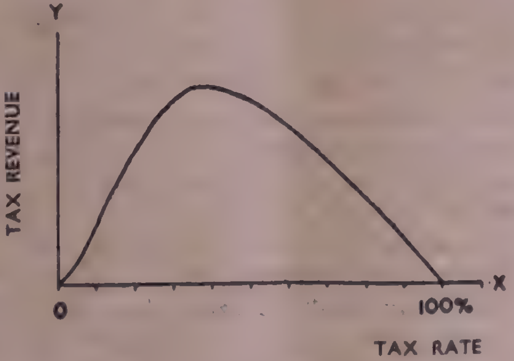
The theory of supply side economics gained wide currency — if not acceptance — with Mr. Ronald Reagan's election as U.S. President. The changes in tax rates, based on this theory, will have the desired effect only if they generate larger revenue. In actual practice, this may not happen. In this article, the author explains the limited applicability of the supply side economics to Indian conditions.

INDIA is now passing through a critical phase in its process of development. We are having inflation at the rate of 20 per cent per annum against 3 to 4 per cent rate of growth on average over the last ten years with a serious balance of payment problem which has induced India to get the controversial $5.7 billion IMF loan. Like most of the developing economies in the '50s and '60s, India has resorted to the Keynesian aggregative demand approach to development. The expansionary monetary-fiscal policy is a corollary programme which has landed the economy into the present state of high inflation with low growth rate. India, in its present juncture, should decide whether it should continue with the Keynesian aggregative demand management policies or should introduce some tenets of the supply side economic policies to check inflation as well as to achieve growth.

The supply side economics as distinguished from the Keynesian-monetarists' demand-side approach is based on the Say's Law. The Say's Law emphasises that it is aggregate supply which creates production and growth for the economy and consumption and investments are consequences and not causes for production as viewed by the Keynesians.

The supply side economics can be traced back to the ideas of the physiocrats and the classical economists. They provided the fundamental propositions for productivity and growth on which supply-side economics is based. This old/new view holds that economic growth is a function of capital and labour and a proper fiscal policy providing incentive for labour and capital, supported by a neutral monetary, policy can redeem the economy of its malady of high rate of inflation, low rate of growth and low level of employment.

The basic principle of the supply side economics is based on the Laffer Curve named after Aurthur Laffer.[1] The Laffer Curve presents a relationship between tax rates and tax revenues which are negatively related beyond an optimum point. The tax rate is measured along the horizontal axis and the tax revenue along the vertical axis. At zero tax rate at the primitive stage of the economy where no essential public goods and services such as law and order, justice, defence etc. are not provided at all in absence of a government, economic activity is zero and hence tax base and tax revenue are also zero. Tax revenue is tax base multiplied by the tax rate. At the tax rate rises, the supply of these essential goods and services will increase, economic activity will expand and with rise in GNP tax-base and tax revenue will grow. This is due to the fact that the disincentives of increases in marginal tax rates will be outbalanced by efficiencies in productivity. But beyond an optimum point tax rates and tax-revenue become negatively related as disincentives of higher tax rates to work and saving reduce supply of labour and capital—of marketable goods and services—of the aggregate output. With shrinkage in GNP and tax-base, the revenue falls. When the tax rate is 100 per cent there will be no tax revenue at all as people will not work for nothing.



LAFFER CURVE

Thus two points on the Laffer Curve, the maximum and the minimum points of tax-rates, yield the same, i.e., zero revenue. The curve also makes it clear that reduction in tax-rate from the optimum point can decrease tax revenue (as in the early stage) or increase it (as in the mature developed state) depending on the state of the economy on the curve. The Laffer Curve points out that at zero tax rate tax revenue is zero and with increase in marginal tax rates tax revenues rises but the disincentive of tax rates to work and saving also rises. Consequently a point on the curve is reached when the loss in tax revenue due to erosion of incentive for work and saving and tax-evasion will outbalance the gain in tax revenue resulting from higher tax rates. The Laffer Curve depicting the tax-output relation is the major premise of the supply side economics.

---

*Dr. (Smt.) Bani Majumdar teaches in the Department of Economics, University of Bombay, Bombay-400098.

The supply side economics emphasises the tax-rate changes because tax rate changes affect relative prices output and growth. Higher tax rates create preference for leisure to work consumption to saving and allocation of resources to non-market activity to market activity. Disincentives for work and saving affect supply of labour and capital, and of marketable goods and services and hence economic growth and price stability.

True to its classical origin, the supply side economics upholds a relatively neutral monetary policy and like the monetarists, recommends the control of the rate of growth of money-supply and non-inflationary financing of the budget deficits. Enough tax revenue generated through tax-cuts and adequate savings harnessed through market borrowing will finance budget deficits. Market borrowing may result in high bond rate in the capital market but control of the rate of inflation will help it to seek its natural real level.

The basic objectives of the supply side economics are the same to that of the demand side economics, viz., full employment, growth, and stability in the value of currency but it tries to bypass the trade-off between the goals by its policy measures. In the U. S. economy, the supply side economic policy measures encompass reduction in government encroachment on free enterprise economy through control of the domineering role of the public sector, reform of the governmental rules and regulations inhibiting free market operations, tax cuts to provide incentive to work and saving, and control of the rate of growth of money supply. This is expected to shift the supply curve to the right with unchanged demand thereby checking both inflation and unemployment.

The Indian economy is committed to achieve the goals of high rate of growth, high level of employment, price stability and foreign exchange stability within the framework of a mixed economy. Indian economic planning originally adopted a growth strategy based on Harrod-Domar model which emphasises the development of a wide capital-base for generation of economic surplus and its reinvestment in that investment goods sector for creation of a self-sustained growth in future. This Keynesian growth strategy and its Mahalanobis variant with emphasis on capital-intensive heavy industry subsector has been adhered to since the days of the Second Plan period. The expansionary monetary-fiscal policy as corollary programme has inadvertendly led the economy to a state of high rate of inflation and low rate of growth and employment.

A budgetary policy leaning heavily on deficit financing for harnessing real saving into capital formation has downgraded about 60 per cent of the population below the subsistence level. A highly progressive direct and indirect tax structure initiated more for revenue income than for justice and equity have become disincentive for saving and work and a catalyst for generation of a parallel economy. A policy of enhancing money supply at the macro-level and of rational deployment of financial resources at the micro level at differential interest rates is a concommittant outcome of the Keynesian demand side approach. The monetary policy mainly devolved on the Bank Rate technique is the major policy instrument for attaining monetary objectives and menetary management in India.

In the financially undeveloped classical framework of the Indian economy the Keynesian monetary policy is not appropriate as in this economy the medium of exchange function of money is more important than its asset function. The importance of the medium of exchange function of money is evident, to cite some facts, from the larger proportion of currency in money supply, cash payment of wages, urban rural transactions in terms of cash.

The transaction demand for money being more important than its asset demand, any injection of new money into the system creates money flow into the goods market than in asset market; with limited marketable surplus and inadequate buffer stock, inflationary price rise ensues. Within the financially developed sector of the dichotomised Indian economy, money as an alternative asset to bonds and securities plays a limited role in the determination of the interest rate. In a narrow captive capital market securities are sold at low fixed interest rates to the financial-bank and non-bank intermediaries. Money does not flow freely into the asset market to lower interest rate or the structure of interest rates through the consequent neo-Keynesian ripples on the asset prices. The monetary authority maintains, by dint of its authoritative decisions, a low and differential interest rate policy. Money held for transaction motive far overshadows money held for finance motive or precautionary and speculative motive. With limited quantitative and qualitative growth of the financial structure savings of the household sector flow mainly into bank deposits and in liabilities of the Life Insurance, Pension and Provident Funds and the U.T.I. Relatively low interest rate and high rate of inflation discourage growth of savings, divert savings into gold jewellery, real estate or simply into consumption or investment in the parallel economy.

In the real liquidity conscious rural economy of India the asset preference is satisfied by holding of gold jewellery and commodity stocks rather than by money or financial assets.[2] Low interest rate in the rural sector enjoined by the monetary policy is expected to create little dent on productive investment hindered by real shortages but may enhance commodity stock holding by the rich farmers. The fall in marketable surplus, fall in employment in the industrial sector and rise in the price-level are the expected results.

Thus in the classical famework of the Indian economy in which money functions more as medium of exchange than as store of value an expansionary monetary policy exhausts itself in inflationary price-rise rather than in reduction of interest to enhance investment, employment and output. A policy of budget deficits financed by resort to the printing press rather than by taxation and market borrowing is expected to shift the

Keynesian aggregate demand curve to the right; but as the economy operates largely in the classical range rather than in the Keynesian range in the ISLM apparatus the rightward shift in the I-S curve results largely in inflation. The real problem of the Indian economy lies in shortages and inelasticities of the factor endowments—in paucity of marketable goods and services—in the constraints for augmenting aggregate supply.

As the Indian economy suffers from the structural rather than the Keynesian type of involuntary unemployment, it is high time to rethink about accepting the Keynesian aggregative demand approach to the problem of output and growth. A Keynesian view of the Indian economy makes it clear that with an "inverted L-shaped Keynesian aggregative supply curve"[3] due to downward rigidities of wages and prices a rightward shift in aggregate demand curve through deficit budget-low-interest rate policy (in the usual demand-supply graphic presentation) exhausts itself mostly in raising prices than output; the leftward shift in the aggregate demand curve, even if not accompanied by fall in employment due to structural rigidity will be obviously resisted by the wage earners and the income-earners.

A monetarist view of expanding output through expansion of aggregate monetary demand is not vindicated in the Indian economy as real money is not found a significant determinant of income in India.[4] In the monetarist model presented graphically, a leftward shift in the aggregate demand curve, through control of the rate of growth of money supply, with a fixed inelastic supply curve, will obviously reduce inflation.

In view of the classical character of the Indian economy an aggregative supply side approach which emphasises production and growth as function of capital and labour is imperative. Growth should be attained through repeated reinvestments of economic surplus at every stage of development in the form of profit incentive to enhance capital productivity and of wage fund, labour productivity. The share of profit to wage of capital to labour in economic surplus should be determined with reference to availability of factor endowments and longrun viability of the economy. The question whether this supply-side growth should be attained in a perfectly competitive free enterprise economy or within the present framework of mixed economy with a dominant public sector is a matter of value judgement.

In the Indian economy the public sector has been assigned a major role for developing a capital intensive heavy industrial-infrastructural complex and major service industries in the tertiary sector. The public sector is pervading almost two-thirds of the organised the economy. In this context a supply side economic policy of providing incentive for saving and work will largely help to intensify capital formation and labour productivity. Introduction of a fiscal policy of balanced budget or a deficit budget with a "ceiling" on deficit financing and a policy of tax-incentive for labour and capital would be sagacious.

A highly progressive direct tax-structure impinging on the marginal income in each bracket of income is at present, eroding incentives for both saving and work in the wide-ranging complex of the government and the public sector enterprises. Inspite of high exemption limit for income taxation direct taxes on marginal income at progressive rate has become disincentive to people who are hard hit by inflation. Tax cut on business profits along with provision for higher depreciation allowances will help generation of internal funds for investment. It may be argued that taxes levied at progressive rate on income if reduced will benefit the rich more than the poor. But such tax cuts should be proportional to progressive tax-rates levied and preferred to be higher for the lower income brackets than for the higher ones.

It may be debated whether the objective of progressive tax-reduction in downward direction on different slabs of income to create preference for work to leisure, saving to consumption through substitution effect on aggregate supply would materialise in the subsistence economy of India. The supply curve may be backward-bending if people, with tax-cut and more disposable income, prefer to work less and consume more due to income effect. But that will be a demand-side tax-cut which encourages consumption and leisure through rise in disposable income. A demand-side model is concerned with the size of tax-cut and volume of increase in disposable income which via the multiplier effect enhance aggregate demand, employment, income and output in consequence. The supply side economics is concerned with changes in the "structure of taxation" and the rate of tax cuts to generate "incentive effect on behaviour of the people". With successful implementation of the supply-side economic policy resulting in rise in the rate of real income there will be preference for saving to consumption as there is a limit to increase in real consumption and work to leisure except in case of an exceptional man (a lazy man).

A high rate of inflation may divert savings generated through tax-cuts for investment into gold, jewellery, real estate, or at best into house construction than in capital equipments. Taxation on interest income along with inflationary prise-rise will debar people from investing in bonds, eqities, shares or in other financial assets. A policy for containing inflation is indispensable.

The supply-side economic policy itself may render inflationary impact if tax-cuts create deficit budget financed by bank borrowing or by borrowing from the market by "crowding out" the private sector at higher rate of interest. This can be avoided if output increase due to larger flow of labour and capital matches growth in money supply. A ceiling on deficit financing is imperative. There will be no increase in interest rate and "crowding out" effect if adequate savings are generated and its flow into parallel economy is discouraged. Nominal rate of interest will also seek its real level with increase in the strength of the economy.

In Indian, about 60 per cent of the people living on the subsistence level is neither in the tax net work nor will be subject to tax-incentive. In the industrial-tertiary sector of the rest of the economy the household sector is the major supplier of savings. The domestic corporate sector's contribution to total savings is minimum. A tax-incentive to the people in this economy pervaded by the public sector will obviously enhance the flow of savings and enable the private corporate sector to generate adequate profit for capital formation. Money flow into the parallel economy will be checked and diverted into the financial assets. The asset market will grow quantitatively and qualitatively to channelise flow of funds into fixed investments.

The progrssive wide-based indirect tax-structure in the Indian economy should be reformulated with a view to control cost-structure and inflation. In the subsistence economy of India in which marginal propensity to consume is very high a realistic reduction and structuring of indirect taxes may contribute to inflationary price-rise particularly in the context of shortages of basic goods available in the market. But this is a demand-side approach. Indirect tax cuts and fall in general price level with simultaneous rise in the general purchasing power, a function of growth in the economy will ultimately lead to increase in saving in relation to consumption.

Growth in real purchasing power will be possible only through increase in supply of labour and capital and real money in the economy. The generation of real purchasing power will require control of the rate of growth of money supply in proportion to the rate of growth of output. This calls for a macro-level credit planning for maintaining optimum money supply in the economy. With ceiling on deficit financing, maintenance of 'safe limit' on money supply and provisions for tax-incentives, the opening up of the economy to foreign capital will be necessary. If inflation subsides, the interest rate will attain its real level. Though high short-term rate attracts short-term foreign funds, it is the strength of the economy which invites foreign capital and facilites development.

The $ 5.7 billion IMF loan or any large-scale commercial borrowing from the Euro-dollar market in future should be utilised in the most non-inflationary way in the economy. High rate of inflation as argued in the 6th Plan document is increasing our balance of payment deficit. The saving income ratio which was 20 per cent in the previous year came down to 17 per cent in 1980-81. Flow of funds into the parallel economy is obstructing planned utilisation of resources. Hoarding of stocks is contributing to the rising price-index. In this context IMF loans with the conditions of control of budgetary deficits and of the export-import businesses are welcome measures. But to stremline bugetary expenditure reduction of subsidy on food grains will have immediate inflationary impact on urban cost of living, while on export goods will reduce their competitive strength in the world market. Liberalisation of imports will remove protectionist shelter to productive domestic enterprises. Import of technical knowhow is neither quantitatively measurable nor immediately fruitful. All these have inflationary consequences.

Large-scale investment of foreign capital in capital intensive investment sector with long gestation period will contribute to inflation. Its utilisation in labour-intensive consumer goods industries or rural development projects will create immediate demand for basic wage goods. Absorption of foreign capital in a non-inflationary way obviously needs adequate supply of basic goods and formation of buffer stock along with growth of the economy. The real problem of India is a supplyside problem. The constraint is the supply of marketable goods and services — of 'supply' of labour and capital for production and growth.

REFERENCES

1. Ref: Impact, No. 35, 36.

2. Some aspects of Monetary Theory and Policy in a Real Liquidity Conscious Economy by P.R. Brahmananda in *Commerce Annual*, 1960.

3. Economic Comment in First Virginia Bank, April 1981 by Dr. R.T. Selden.

4. Determinants of Real National Income and Price Level by Dr. P.R. Brahmananda.

INDIA—THE TURBULENT HALF-DECADE

BY K. N. SUBRAHMANYA

(200 pages: Price Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first years record.

SOME OPINIONS

Subrahmanya's strong point is that he writes as an observer and not as a protagonist of this or that party or group. —*Commerce*

His style is unostentatious, his approach dispassionate and his logic forcible. —*Capital*

He has stated certain unpalatable facts. —*Patriot*

There is much to ponder in this little book. —*The Mail*

The book gives an in-depth and impartial analysis of recent political events. —*P. I. B. Nayar, Journalist, London*

You have made many thought-provoking points.—*N. A. Palkhivala*

Since long, we have not come across such an objective review of the Indian political scene.

—*Dr. Susheela Gosalia, Author, Mannheim, West Germany.*

Copies can be had from: **Southern Economist,**
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20 % discount for Subscribers)

An Approach to Energy Crisis in India

By **L. S. Singh** *

The paper analyses both demand and supply aspects of our growing energy consumption and focusses attention on the causes aggravating the energy crisis in India. It calls for developing alternative sources of energy and vigorous R & D in energy sector.

THE paper is divided into three parts. Part I examines the causes of growing demand for energy consumption with growth in the national economy. It shows that oil import bills and scarce oil resources are the twin factors that escalate the prices of oil as a major source of energy. On account of rapid growth in population, there will be acute problem for energy by the turn of this century. Part II analyses the pattern of energy consumption in India and highlights the need for economy and fuel-substitution to great degree. The importance of oil and coal as chief sources of commercial energy do have serious implications for the overall developmental strategies in future. Part III concentrates on policies and programmes for using renewable resources in main and management of demand for the existing energy-stocks. It is increasingly felt that renewable resources like bio-gas, solar energy, tidal energy and nuclear fission should suitably be incorporated in the energy-mix of the economy.

I

Demand and Supply Imbalances

The spectre of energy crisis coupled with political overtones in recent years is sure to cast a bad spell on the economies of developing countries like India, and halt the tempo of economic development unless structural changes in the development strategy are quickly made and a nation-wide consciousness to take corrective action is brought about.

Due to global scarcity of energy reserves and unharnessing of alternative energy sources on a gigantic scale, rising oil bills and shrinking energy resources with traditional mode of utilisation synchronized with growing population and surging demand both for commercial and non-commercial resources, the energy crisis in India is likely to aggravate to an incalculable dimension. A close scrutiny will show that the entire crisis has raised its head mostly due to the failure in precise forecasting the demand, irrational use of energy, unsound planning for production of energy and other political and economic indecisions. The present crisis calls for a study of both demand and supply sides of the problem.

The sources of energy supply in India can be broadly divided into two categories viz., commercial and non-commercial energy. The main sources of commercial energy are oil, coal and electricity while the non-commercial energy sources comprise firewood, dry and animal and vegetable wastes. Nuclear energy does not make a significant contribution to the national energy pool at present. According to the Sixth Plan Document 1980-1985,[1] the reserves of coal in seams upto depth of 600 metres and of thickness of 12 metres and above are estimated at 85, 444 million tonnes, of which 24,604 million tonnes are categorised as 'proved' reserves. Of the balance, 37,585 million tonnes are 'indicated' reserves and the rest 'inferred' reserves. As on January 1 1980 the balance of net recoverable reserve of oil in the 'definite' category was about 360 million tonnes and of gas about 350 billion cu-metres. According to the tentative survey of the Central Electricity Authority in 1976, the total hydro-electric potential is equivalent to 75,400 MW at 60 per cent load factor. The potential developed at the end of 1978 is 39.4 TWh. The reasonably assured uranium resources stand at about 34,000 tonnes of U_3O_8 of which about 15,000 tonnes are economically exploitable. The uranium resources can support the first stage nuclear programme consisting of natural uranium reactors of about 8,000 MW of installed capacity.

The Working Group on Energy Policy (1979)[2] has estimated that if the demand for energy is unchanged and the rate of growth of the economy range between 5.5-6 per cent, there will be four-fold increase in energy requirements within next twenty years. Even though concerted efforts are made to contain demand and more efficient harnessing of energy technologies, the energy demand by the turn of the century will not be less than nearly three times than it is at present. As noted in the Sixth Plan Document, according to these projections the requirements of coal, oil and electricity generation would be of the order of 246 million tonnes, 69 million tonnes and 464 TWh respectively by the close of this century. Thus it is difficult to strike a balance between demand and supply in reasonable time unless new energy sources are tapped in long-run. This gap has a boomerang effect on the national economy.

II

Pattern of Energy Consumption

As placed in the Draft of the Sixth Five Year Plan 1980-1985[3] the commercial energy consumed went up five-time, during the last twenty five years. Between 1953-54 and 1975-76, the annual growth rate in commercial energy consumption was 6.78 per cent as against the GDP growth rate of 3.68 per cent, the GDP—energy elasticity coefficient has remained stable at around 1 8 and is high compared to developed countries. The household sector in India consumes around 50 per cent of the total energy in India where industries sector has the bulk share of commercial energy consumption accounting for about 38.5 per cent. As shown in Table-1, over the years, oil has been supplying an increasing share of the country's commercial energy requirement. Although indigenous production of oil has been stepped up, it has not been able to match the growing demand.

---

* Dr. L. S. Singh Department of Economics, Bihar University, Muzaffarpur (Bihar).

The central fact of our oil situation is our heavy dependence on imports. During 1980-81, our total consumption of patroleum products is likely to be of the order of 34 million tonnes (public consumption 32 million tonnes plus refinery losses and consumption 2 million tonnes). Of this about 10 million tonnes of crude oil would come from domestic sources, the domestic contribution may go high at around 13 million tonnes if there is no disruption in oil supply. The balance requirement of about 24 million tonnes would be met by imports. In short, for about two-thirds of the requirements, India depends on imports.

It is estimated that to finance this order of import of crude oil petroleum products during the current year (1980-81), there shall have to allocate foreign exchange worth Rs. 6,000 crores - or 90 per cent of the total export earnings. Assuming normal production from Assam, the current level of production would be placed at around 13 million and it is planned to be raised to 25 million tonnes by around 1990. Putting together the Bombay High and all other oil reservoirs which has been discovered so far, the total proved oil reserves are currently placed at around 366 million tonnes. This could be exhausted within 20 years from now. Only five years ago, in 1975-76, the oil consumption was of the order of 23 million tonnes. Within five years, the oil consumption has gone up from 23 million tonnes to 34 million tonnes (1980 81), thus oil consumption rose up at the rate of 2 million per year. If the domestic output keeps going up at the official estimate of 1 million tonnes a year and its total consumption continues to increase at the recent rate of 2 million tonnes a year, its implications as regards imports should be clear. Imports would have to keep increasing at the rate of 1 million tonne per annum, i.e., from the current level of about 24 million tonnes, imports may have to go up to around 34 million tonnes by 1990. In short, neither now nor in the future would India be anywhere near self-sufficiency.

TABLE-1
PATTERN OF ENERGY CONSUMPTION IN INDIA

(Million tonnes of Coal replacement)

Year	Commercial Energy			Non-commercial energy	Total
	(a) Oil	(b) Coal	(c) Electricity		
1960-61	43.9	40.4	16.9	145.5	246.7
1965 66	64.6	51.8	30.5	159.6	306.6
1970-71	97.2	51.4	48.7	172.2	369.5
1973-74	116.6	56.0	55.8	190.0*	418.4*
1976-77	129.1	66.8	71.9	200.0*	467.8*
	Index Numbers		(1960-61 = 100)		
1965-66	147	128	181	110	124
1970-71	221	127	288	118	150
1973-74	266	139	330	131*	169*
1976-77	294	165	425	137*	189*

(a) Excluding non-energy use of oil.

(b) Excluding coal used for electricity generation.

*Estimated.

Sources: 1. Basic Statistics on Indian Economy - Commerce Research Bureau (1980).

2. Report of the Working Group on Energy Policy (1979).

TABLE-2
INDIA'S OIL IMPORT BILL

Year	Quantity of import of crude and products (Million tonnes)	Import Bill (Rs. crores)	Export Earnings (Rs. crores)	Oil import bill as % of export earnings
		Past Trends		
1970-71	12.8	137	1,535	9
1975-76	15.8	1,256	4,043	31
1980-81 (Likely)	24.5	6,000	6,700	90
		Projections		
1981-82	23	7,000	7,400	95
1982-83	23	8,700	8,100	107
1983-84	23	10,900	8,900	122
1984-85	23	13,700	9,800	140
1985-86	23	17,100	10,800	158

Source: Vide Narottam Shah's article "India's Oil Crisis" The Illustrated Weekly, Vol. II, April 11, 1981, p. 11.

According to the authoritative sources,[4] leading American businessmen are preparing to face an oil price of $ 300 to $ 400 per barrel by the end of the current decade. The impact of such a pace of increase (25 per cent per annum) in the oil prices on India is demonstrated in the Table-2. It is seen that India's oil bill, even assuming no further increases in the imports from the likely 1981-82 level of 23 million tonnes, would increase to around Rs. 11,000 crores in 1983-84, and by 1985-86, it would be around Rs. 17,000 crores. More significantly, by 1982-83, India's oil import bill would exceed the export earnings.

As it is evident from Table-3, the future demand for commercial energy like oil and coal will increase tremendously. With staggering balance of payments position and escalating prices of petroleum products, it will be really a doom's day to meet all the oil bills by the turn of this century. Despite all efforts at coal conversion technology and accelerated electricity generation, India has not been able to meet the present requirements. Under capacity utilisation of power plants and increasing pitheads accumulation of coal fields are a few glaring

TABL-3

CONSUMPTION FORECAST OF SOURCES OF ENERGY

Source	Unit	Estimated consumption	Optimal level forecast (2000 A.D.)	Compound Annual rate of growth %
Oil	Million tonnes	32	69	3.9
Coal	"	120	427	6.5
Electricity (capacity)	Megawatts	29,000	108,000	6.8

Source : Vide M. S. Patwardhan, "Energy Crisis," The Economic Times, Calcutta, June 23, 1980, Table III.

examples of our non performance on energy front. All this leads to the conclusion that in the coming years, we shall have to face energy crisis more acutely. The most alarming feature for India is that the rate of increase is aggregate consumption of commercial energy as well as the *per capita* consumption is increasing over the years. On the one hand this reflects the tempo of economic development of the country while on the other hand this signals the grave impact on the energy economy due to rising energy cost.[5] In the face of it, any further curtailment in energy consumption will halt the progress of the various sectors of the economy.

III

Alternative Options

The solution to the problem requires both short-term and long-term resources to match with supply. In the short-run, methods of curtailing energy consumption without jeopardizing the tempo of economic growth and better demand management of energy shall have to be evolved where in the long-run the entire energy crisis should have to be viewed in the perspective of future development of the country and tapping up of alternative sources of energy and efforts to population stabilisation and restructuring of the model of development to suit the Indian condition. Energy consumption is determined by the pattern and intensity of economic development and the life style of a society. The present energy crisis has underlined the need for reorientation of our development strategies and for changing the life-style particularly of affluent urban population. We need nothing less than a radical restructuring of the energy base of the economy.[6]

Energy requirements per unit value added are higher in India compared to in other countries; they are also higher as compared to the past in India. It is found that India consumes more energy per unit production of crude steel, aluminium and cement compared to most developed countries. The latter may have already experimented a great deal and may possess newer technologies which are energy efficient. Large energy consuming sectors do not necessarily produce high value added. It is true that their contribution, to the economy, to the infrastructure, and to basic needs, are significant and also that in *per capita* terms, the production of these sectors today can hardly be considered satisfactory. Nevertheless the choice of suitable industrial technologies in large energy consuming sectors, and greater emphasis on developing non-large energy consuming industries are necessary.[7] The FCRA has in its studies, identified savings through better operational and maintenance practices in various sectors of the economy.

Energy conservation has been referred to as the most promising alternative energy source. The case for conservation is equally true for both developing and developed nations. The onus for conservation falls on both the users and the manufacturers. The consumers of petroleum products would have to ensure careful use by better operational and maintenance practices and the manufacturer would have to incorporate into his designs efficiency improvements. Conservation policies are relatively difficult to enunciate as against energy growth policies and this has been the experience in developed nations also. The role the conservation can play to ease the present energy crisis and smooth the transition from the present fossil fuels dominated economy to non-conventional resources economy is an undisputed fact. It must undoubtedly be assigned a central role in the whole of the energy strategy of India. Even at this stage there is need for dovetailing the new energy policy with the industrial policy to ensure optimal utilisation of energy.

Arrangements for physical regulation and distribution control should be made so as to manage demand. But these control measures should be supported by an appropriate level and structure of prices of different energy forms so that, on private cost calculations, the desired reduction and shifts in energy consumption tend to become growingly attracting to the individual energy consumers.[8]

In view of the large coal resources particularly of non-coking coal available in India, it is necessary to make vigorous attempts to develop coal conversion processes. Oil which is scarce and costlier will have to be reserved for uses which oil exclusively can satisfy. In the next twenty years coal should progressively replace oil except oil is used as fuel for transport and feedstock for manufacture of chemicals where substitution is not so easy. Coal-tar, light oil and the gaseous fractions obtained from Pyrolysis of coal, are recovered for commercial use. An appropriate energy policy should effectively harness the opportunities thrown up by the coal-based technologies.

In the long run, a switch to coal as the alternative to costly imports of oil is not the only adequate answer to our problems. Coal may be regarded as an energy source in abundance, but it is not unlimited, and in addition, poses a difficult problem of economic extraction and efficient utilisation. Thus it is not so much a switch to coal as reliance on hydro power and nuclear energy will be the most effective answer to the problem of energy in our situation in the long-run. The policy perspective must shift in favour of hydro and nuclear power. Since the development of hydro and nuclear power involves long gestation periods, action in this direction must be initiated right now. This should be combined with better use of bio-gas resources, forest wastes and wood wind power, tidal waves, etc. Exploitation of renewable sources of energy should be the kingpin of our energy strategy in future.

For the past few years, it is seriously felt that there are a number of advantages for generating electric energy for the country's rural population. Solar energy is not only everlasting but ecologically it is the cleanest source of energy. Besides, solar energy can be directly converted into electricity without using any moving parts by means of solar PV. Although solar energy is available abundantly in almost all states except Kerala, Assam and Kashmir, it is diffused and intermittent and therefore, requires collection and storage systems.

A suitable technology for fossil fuels such as uranium and thorium should be developed for energy purposes. But the dangers the nuclear energy involves must not be overlooked. The R & D should take keen interest in developing renewable resources and new conversion technology. In a country like India it is necessary to choose optimal mix of several energy resources for different uses. Scientific and technological research in this country requires to take a comprehensive view of the energy resources and social goals to select a few areas for intense research and acquire the capacity to adopt any successful achievements in the other fields. The technological research efforts should be closely linked up with productive techniques to be followed.[9] Besides this, energy sector should be allowed increasing outlays so as to cater to the demand for future energy consumption. It is welcome that the Sixth Plan has realized this.

REFERENCES

1. *Sixth Five Year Plan 1980-1985*, Government of India, Planning Commission, p. 229.

2. *Report of the Working Group on Energy Policy*, 1979.

3. *Sixth Five Year Plan 1980-1985*, op. cit., p. 228.

4. *Petroleum Economist*, December 1980.

5. Kar, Joyashree and Chakraborty, Debesh, "Present Energy Crisis – A Critical Analysis and Policy Towards it in the Indian Context", *U.G.C. Seminar Paper* on *'The Economics of Energy Crisis'*–February 1981 at the Rabindra Bharti University, Calcutta.

6. M.S. Patwardhan, "Energy Crisis", *The Economic Times*, Calcutta, June 24, 1980.

7. Parikh, J.K. and Chaitanya, A.K., "Are Our Industries Energy Efficient?", *Economic and Political Weekly*, March 15, 1980, p. 563.

8. Sen, Basudeb, "Indian Energy Perspective Implications for Economic Policy and Theory", *U.G.C. Seminar Paper*, February 1981 op. cit., p. 7.

9. Rangarao, B.V., "Alternatives in Energy Development", *Economic and Political Weekly*, July 1974, p. 1068.

ECONOMIC CO-OPERATION AGREEMENT WITH EEC

A new 5-year Commercial and Economic Co-operation Agreement with India was concluded on June 23, 1981. A non-preferential agreement like the first, it too is based on the principles of comparative advantage and mutual benefit. But it represents a considerable advance on the 1973 agreement. In its preamble, for example, the new agreement calls for "closer co-operation across the whole range of commercial and economic endeavour". The earlier agreement limited economic co-operation only to trade matters. However, as the EEC's competence is a function of the Community's progress to full economic union, this co-operation is to be achieved "in an evolutionary and pragmatic fashion".

The provisions for commercial co-operation have been strengthened. In order to expand and diversify their trade, the two sides will promote trade and industrial delegations; foster the organization of fairs and exhibitions; encourage their commercial organizations to co-operate with each other and, generally help in identifying sectors and products in which each side enjoys comparative advantage and support market development programme based on such identification.

The two sides have also undertaken to foster economic co-operation in all fields of mutual interest. They will take steps to promote industrial co-operation, including the transfer of technology, through concerted measures at Community and national levels and mutually beneficial investment, consistent with their laws and policies. The new agreement also affords a stronger legal basis for technological and scientific co-operation than the earliear CCA. It provides for joint programmes of research and development and specifically refers to co-operation in the fields of energy sources and conservation, energy-related technology and environment protection and improvement.

Under the provisions on development aid, EEC will intensify its support for India's development programme. This support will include both direct concessional transfers, through the Community's own programmes in favour of non-associated developing countries, and help in securing funds from semi-public institutions in accordance with the rules and policies of the latter. In addition, financial institutions on both sides will be encouraged to co-operate with each other.

The successful implementation of the new co-operation agreement will depend, as in the previous agreement, on the Joint Commission, made up of representatives of India, on the one side, and the European Commission, assisted by member states representatives on the other. The Joint Commission's terms of references have been reinforced, however, most notably as regards recommendations for the use of the Community's funds jointly be the two sides for expenditure on relevant studies and activities.

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

Unemployment and Population Growth: Is there a Causal Relationship?

By **R. D. Kardegouda** *

There is no denying the fact that the high rate of population growth has aggravated the unemployment problem in India. However, while analysing the problem, one has to take into account other factors like the faulty educational system which lacks a technical bias and the failure of the planners to exploit the country's natural resources fully. In this article, the author analyses these issues and suggests a new approach which avoids the familiar pitfalls.

UNEMPLOYMENT has been a major problem in India for over two decades. According to the Planning Commission's labour force projection, the number of unemployed matriculates and graduates and above in the beginning of 1980 was estimated at 3.47 million. And if there is no further deterioration in the unemployment rate, this number is likely to go upto 4.66 million in 1985 due to expansion of educated labour force. This would imply the need for the creation of at least 6.52 million jobs over the Sixth Plan period.[1] However, the planners estimate the backlog of educated unemployed and new entrants to labour force at 11.18 million at the end of the Sixth Plan. The increase in employment in organised sector in the past has been around 0.8 millions. Even if it is assumed that the further increase in employment in the organised sector is to be wholly taken up by the educated persons alone, the planners find that there will not be enough room for the educated persons unless they are diverted towards self-employment ventures.

About the gravity of the situation arising out of the large number of educated unemployed, the document says that the unemployment rate in this category, specially in the younger group between 15 years and 29 years of age has been relatively high for some time. Equilibrium between the growth of educated labour force and employment opportunities has not been reached. Further analysis of the document reveals that the educated youth between 15 and 29 constituted 11.5 per cent of the corresponding labour force. But they accounted for 33.2 per cent of the total unemployment in the country. About three-fourths i. e., 73.8 per cent of the total educated unemployed youth, are men and about 45 per cent of them are in the rural areas.[2]

The provisional records of the 1981 census revealed the fact that the number of literates in the country is 15,88,37,215 males and 7,91,54,717 females. In other words, the literacy rate in the country is 36.17 per cent—46.74 per cent in the case of males and 24.88 per cent in the case of females. Really, this is a welcome trend as regards the progress of literacy in India, compared to that of the previous census years. From 1951 to 1961, general literacy in India increased by 44 per cent and during the period from 1961 to 1971, it has increased only by about 23 per cent (see Table-1).

The census studies of 1951, 1961 and 1971 did not highlight fully the number of unemployed in the country. In the 1951 census, the question on unemployment was optional and was canvassed only in a few states. In the 1961 and 1971 censuses no direct questions on unemployment was asked and information on it was derived indirectly. It is only in the 1981 census operation, an attempt was made to project the exact magnitude of the unemployment problem in India.[3] According to statistics from the employment exchanges, the number of the unemployed on their registers increased from 7.6 lakhs in 1956 to 96.4 lakhs in 1976 (Table-2).

The picture of the educated unemployed in the various states (Table-3) shows that some states are facing the problem of unemployment more severely than others. Among the states which are severely facing the problem of

TABLE-1
PROGRESS OF LITERACY IN INDIA, 1901 TO 1981.

Census year	Per cent of literate in population		
	Total	Male	Female
1901	5.35	9.83	0.69
1911	5.92	10.56	1.05
1921	7.16	12.21	1.81
1931	9.50	15.59	2.93
1951	16.67	24.95	7.93
1961	24.02	34.44	12.95
1971	29.45	39.45	18.72
1981	36.17	46.74	24.88

Sources: (i) Registrar General and Census Commissioner of India, Pocket Book of Population Statistics, Census Centenary, 1972, p. 65.

(ii) Provisional Figures of 1981 Census Report, The Indian Express (Bangalore edition, March 19 1981), p.1

TABLE-2
UNEMPLOYMENT REGISTERED WITH EMPLOYMENT EXCHANGES, FROM 1956 TO 1976.

At the end of	Application on Live register (in lakhs)
1956	7.6
1960	16.1
1965	25.9
1970	40.7
1971	51.0
1972	68.9
1973	82.2
1974	84.3
June 1975	87.9
September 1976	96.4

Source: Reserve Bank of India Bulletins, as quoted in "Facts Speak," People's Democracy (New Delhi: Organ of the Communist Party of India (Marxist), 27 February 1977), p. 2.

---

* Mr. R. D. Kardegouda is Research Scholar, Dept. of Political Science, Karnataka University, Dharwad-580 003.

educated unemployed are West Bengal, Uttar Pradesh, Bihar, Kerala and Andhra Pradesh. After India became independent, the Congress government appointed committees like the Dantwala Committee (1969), B. Bhagwati Committee (1973), and the Steering Committee, under the Chairmanship of V. L. Gidwani (1973) to go into the problem of unemployment and underemployment, and study and assess the extent of the problem.

TABLE-3

THE POSITION OF EDUCATED UNEMPLOYED IN DIFFERENT STATES OF INDIA, UPTO 1980.

States	Number of educated unemployed registered with employment exchanges
West Bengal	11,04,754
Uttar Pradesh	7,79,735
Bihar	7,11,819
Kerala	7,10,856
Andhra Pradesh	6,11,587
Maharashtra	5,94,245
Tamilnadu	4,77,000
Karnataka	3,63,288
Madhya Pradesh	3,51,638
Gujarat	2,59,191
Punjab	2,01,600
Haryana	1,66,207
Rajasthan	1,63,000
Assam	1,36,054
Orissa	1,07,100

Sources: Desai Vasant, "Problem of educated unemployed", Samyukta Karnataka (Hubli edition, January 20 1981), p. 5.

The Dantwala Committee originally appointed for estimating the backlog of unemployment for the Fourth Five-Year Plan concluded that the available data were insufficient for estimating unemployment and underemployment in India. The remedies it suggested in this connection were:

1. Reliance on, say, quinquennial surveys of changes occurring in the composition and characteristics of the labour force;

2. Estimation of unemployment on a disaggregated basis taking into account various characteristics such as, religion, state, sex, age, rural-urban residence, status or class of workers and their educational attainments. The Committe made a number of important recommendations calculated to improve the quality of the data to be collected. These recommendations have been variously heeded by the National Sample Survey, the Registrar General, and the Director of Employment and Training.[4]

Now, passing over to the causes or the reasons for the massive unemployment problem in India, there seems to be high level of difference of opinion among the academicians, experts and leaders of different political parties. Some are of the opinion that the rapid growth of population in India has been the cause of unemployment. Some others contend that the present system of education is mainly responsible for the unemployment problem. There are some others who hold the view that the socio-economic structure of the society is the cause for the unemployment problem in India.

The academicians, experts and political party leaders (mainly from the Congress and Janata party), who blame the rapid growth of population for unemployment problem in India concede that when the number of school going children is very large, the number of new entrants to the school going age every year will also be very large. And when these new entrants come out of the schools and colleges every year, the ratio of unemployment — increases and because of this, the country's economy finds it difficult to provide jobs for all the educated. Experts and academicians who hold this view further argue that the rapid population growth affects the unemployment situation primarily in three ways: Firstly, it adds a flow of unemployed people to the existing stock, and thus the labour force grows at the rate in which population is growing. Secondly, a population growth characterised by high fertility results in an age structure which is skewed towards the young and thus results in high dependency burdens. Thirdly, increasing population results in a relative scarcity of cultivable land which tends to accentuate rural-urban migration, unless other factors are affected. Rural-urban migration intensities the problem of urban employment.

Every year, India is adding 40 to 50 lakhs of persons to the existing labour force due to the rapid population growth. The total employment in the organised sector today is more than 1.7 crores and even if it grows at 20 per cent per annum, this sector cannot absorb even half of the addition to the labour force. According to the Agricultural Labour Enquiry Committee (1950-51) the level of rural unemployment was 2.8 million. During the Second Plan period, the total addition to the working force was 11.7 million, of which 7.27 million was in the rural sector. The number of jobs created during the Plan was only 8 million, the urban and rural breakdown being 6.5 and 1.5 million, respectively. The backlog of rural unemployment at the end of the Second Five-Year Plan amounted to 8.5 million. The number of new entrants in the labour market during the course of the Third Plan was estimated at 17 million, out of which 11.4 million was rural. The Bhagwati committee on unemployment placed the number of unemployed in 1972 at 18.7 million, of which 16 1 million persons were estimated to be in rural areas and only 2.6 million in urban areas[5]. Today, the government has to provide some 5 million new jobs every year and this figure will rise to 6 or 7 million before the curve begins to flatten. Altogether, over 100 million new jobs have to be created by 2000 A. D., apart from removing the backlog of some 20 million unemployed today[6].

The Bhartiya Janata party leaders find fault with educational system for the unemployment problem in India and they contend that—if unemployment is staring in our face, it is due to our wrong educational system.[7] They further argue that there is no link between education and industry. They see that after the completion of S.S.L.C. degree there is little scope for students to take up technical courses and productive employments.

The thinkings of the leaders of both the Communist Parties of India, i.e. CPI and CPI (M), completely differ from that of the Congress, Janata and Bhartiya Janata party, on the question of causes for the unemployment problem in India. Both these Communist parties do not blame the rapid population growth as the cause of unemployment problem in India. On the other hand, they find fault with the socio-economic structure of society for the unemployment problem in India. In fact, both these parties defend the large population size of India. The Communist party of India (Marxist) says: "The large size of Indian population also confers several other benefits. Although the percentage of those who can read and write is small, but because of the vast size of the population, their absolute number is enormous. That explains why there are so many doctors, engineers, technicians and experts in various fields in India today. It is unfortunate that the government has failed to make the most efficient use of this skilled manpower which is available in our country."[8]

To solve the unemployment problem in India, both the Communist parties demand the redistribution of lands, which will be a major step towards the solution of the unemployment problem. These parties also demand a major change in the government's policy towards large industrial houses. To quote in this connection the views of the CPI (M), "The underlying causes of massive unemployment and poverty in India is the present intense concentration of the land and industry and trade in the hands of a very small minority people. These vested interests must be fought and dislodged. The youth, who mainly bear the burden of unemployment, must realise that unless the government adopts a genuinely anti-landlord, anti-monopoly and anti-foreign capital policy there will be no effective solution to the unemployment problem in India".[9] Thus, the communists do not agree that population explosion is a major cause for India's unemployment problem. They blame the socio-economic structure of society which is not planned. Commenting on this factor, Mr. Arun Sinha, a left-leaning intellectual, says: "Overpopulation is often said to be the cause of mass unemployment in India. This is putting the cart before the horse. Mass unemployment is a malaise borne by a bad management of the national economy, a measure of the country's underdevelopment. Unemployment is there because the government has miserably failed in exploiting the natural resources and industrialising most of the regions. And only because we have failed to exploit the natural resources we are not able to exploit our vast human resources".[10]

To conclude, it would be fully wrong to put the blame entirely on the rapid growth of pupulation leaving aside other important factors. What is needed is that the government should make concerted joint efforts to solve the unemployment problem in the three ways. Firstly, it should check the rapid growth of population as far as possible. Secondly, there is a need and necessity of reforming the present educational system by creating more diversified courses, which would enable the youths to earn their livlihood. In this, the government has to plan the educational system and manpower properly, by linking education, employment and economic development. Thirdly, the government should bring in legislation to break the monopoly of a few on the lands and in industry.

REFERENCES

1. "Number of jobless to cross 4.5 million in 1985," *Indian Express* (Bangalore edition, 6 February 1981), p. 10.

2. Ibid.

3. "Census to highlight unomployment problem," *Indian Express* (Bangalore edition, 25 January 1981), p. 9.

4. Mitra, Asok, India's Population-Aspects of Quality and Control (New Delhi: Abhinav Publications, 1978), pp. 562-63.

5. Chandrasekharan, S., "Population explosion stalls rural development, "The Indian Express (Bangalore edition, 17 October 1978), p. 7.

6. Verghese, B.G., "These numbers are explosive, "The Indian Express (Bangalore edition, 6 June 1981), p. 8.

7. In an informal interview by the author with some of the Bhartiya Janata party leaders in the Dharwad district of Karnataka state.

8. "Population explosion : Is family planning a solution ?" People's Democracy (New Delhi : Organ of the Communist party of India (Marxist), February 14 1971), p. 8.

9. "On tackling unemployment", People's Democracy (New Delhi : Organ of the Communist Party of India (Marxist), March 27 1977), p. 3.

10. Sinha, Arun, "The Myth of overpopulation", Frontier (Calcutta : March 26 1977), p. 10.

VOLUME OF WORLD TRADE IN 1981 LOWER THAN THAT OF 1980

According to the annual GATT report on International Trade 1980-81, the value of world trade in 1980 reached nearly $2,000 billion. In volume, the increase in trade over 1979 was 1-1/2 per cent, as against a 6 per cent gain in 1979. The GATT economists reported that world production grew by only one per cent last year; and they added that barring a sharp turnaround in the second half of this year, the volume of world trade in 1981 would fall below that of 1980.

They analyze the central problems of economic policy; they continue to recommend priority should be given to arresting inflation, resisting protectionist pressures and facilitating structural adjustment.

Though the share of manufactures in total world exports declined from 58 per cent in 1980, they remained the most important product category entering world trade. Since 1974, fuels have become the second most important product category entering world trade.

Industrial countries' exports increased in volume by 4-1/2 per cent in 1980, compared with an approximate 7 per cent increase in each of the two preceding years. Imports, which had increased by 8 per cent in volume in 1979, declined by 3 per cent in 1980.

The deterioration of the average terms of trade of the industrial countries in 1980 resulted mainly from the sharp increase of oil prices in 1979 and in the first half of 1980. Taken as a group, the developing economies, excluding the traditional oil exporters, grew at a slower pace in 1980 than in any of the preceding four years.

Preliminary information suggests that a more marked slowdown in output and domestic expenditure has taken place in developing countries in the first half of 1981 than in the period 1974-75 (the first oil shock and recession). Exports by the Eastern Trading Area as a whole increased in value by 17 per cent in 1980, as did imports.

Employment of Children in Different Occupations — Study of its Pros and Cons

By **A. N. Sadhu** *and* **Amarjit Singh** *

Even 32 years after independence, exploitation of our children continues in several occupations. The use of children in the fields remains a common practice. To a very large extent, this is explained by economic necessity. Even so, efforts need to be made to prevent the exploitation of children. In this article, the authors explain the limitations of the existing legislation and emphasise the need to adopt a pragmatic approach towards this problem.

THE employment of children is a problem that has constantly been attracting the attention of planners and social reformers. The problem of child labour is a serious one facing the world in general and the developing countries in particular. Indications are that child labour is on the increase in India. There are at present over 25 crore children in the country and their welfare is a national concern.

Children constitute over 35 per cent of the world's population. Their number has already crossed 1500 million by 1979 and by the year 2000, AD, child population is expected to account for one fourth of world population and 40 per cent of its labour force. According to the I. L. O. data, more than 52 million children between 6 to 14 years age in the world are employed in a variety of occupations. Out of this, 29 million are in South-East Asisa and 9.1 million in East Asia. Out of these 52 million, 42 million workers work without any remuneration in family farms and other enterprises and 10 million are working for wages in different callings such as workshops, tea-shops, factories etc. This estimate of 52 million child labour in the world may be a rough estimate because it does not include those children who work part-time. Moreover, in many countries of the world, children under 15 years are not covered by statistical surveys. Child labour is employed on construction sites in Asia, West Asia, Latin America and Southern Europe. In some parts of Central America, West Asia, and Asia, girls even below the age of 7 years are brought from their respective homes and virtually sold to work like slaves.

In our country, millions of children are denied the advantages associated with childhood; they are prematurely rushed into adult roles and responsibilities. According to the last census (1971), 41 per cent of India's population or as many as 28 million are children under 14 years of age. A study of available figures shows that in 1968-69, only one in every three children of the 11-14 age group could continue in the school stream. This means that out of 37 million children aged 11-14 years, a clear 25 million were already at work whether in the rural or in the Urban setting. The children who should normally have been in schools and should have received proper care are put to hard work ranging between 12 to 16 hours a day. Not only are they employed at a very young age, but their working conditions are pitiable. They are paid the lowest wages and are entitled to no other benefits. A statement showing the age-distribution of child population in India as in 1971 is given in Table-1.

TABLE—1

CHILD POPULATION IN INDIA (1971)

Age Group	Total	Males	Females (In millions)
Below 1	16.2	8.2	8.0
1 to 3	45.2	22.9	22.3
4 to 6	53.3	27.7	25.6
7 to 11	74.8	38.7	36.1
12 to 14	38.5	20.6	17.9

The 1971 census shows that the total number of child workers in the country stood at about 10.7 million. Out of these, 8.5 million i. e. 79.4 per cent were agricultural labourers and cultivators and a little more than 8 per cent are engaged in live-stock, forestry, fishery, plantation, orchards and allied activities. Six per cent of the child labour was engaged in manufacturing and processing concerns and another 6 per cent in house-hold work. The extent of child labour in different callings according to *Indian Council of child welfare Bulletin* (1973) is depicted in Table-2.

It is evident from Table-2 that the maximum number of working children is in agriculture followed by live-stock, fishery and plantation. The facts revealed by the enquiries recently made about child labour in India are most revealing. A survey conducted in carpet weaving industry in Kashmir shows that about 80,000 to one lakh children, between 6 to 14 years, in the valley are engaged in carpet weaving. They work about 10 to 12 hours a day and earn a total of Rs. 10 to 15 daily. It is customary in the valley that craftsmen and artisans introduce their children to their occupations at a very early age. Children in the valley are made to learn the art of weaving carpet in the training centres opened up by the All India Handicraft Board and the Jammu and Kashmir Handicraft Board, where they are paid a stipend of Rs. 60 per month. It has been revealed by the survey that most of the child trainees in these centres are of age between 5 to 9. The number of such centres in the vally is 235.

Another survey conducted by a social service organisation in Saharanpur (U.P.) reveals that around 10,000 child Lobour below 14 years are engaged in wood carv-

---

* Mr. A. N. Sadhu is Reader, P.G. Deptt. of Economics, Jammu University, Jammu. Mr. Amarjit Singh, also teaches in the P. G. Deptt. of Economics Jammu University, Jammu.

TABLE—2

CHILD LABOUR EMPLOYED IN DIFFERENT OCCUPATIONS

	All-India		urban		Rural	
	Male	Female	Male	Female	Male	Female
0-14 age group	7884742	2853582	607441	167834	7277301	2685748
Cultivators	3125271	746330	39248	5667	3086023	740763
Agriculture Labour	3003991	1581917	75364	37552	2928627	–1544365
Live-stock, Fishery & Plantation	743433	142274	27054	4077	716379	138197
Mining and quarrying	14365	8792	2432	1356	12133	7039
House-hold Industries	199253	139068	48734	30151	150519	180917
Other than household industry	240719	74457	148020	26017	92699	48440
Construction	42281	17360	17841	6194	24440	11166
Traders & Commerce	197335	13959	123894	5055	73441	8901

ing industry where they work for about 14 hours a day and are paid a meagre sum of Rs. 1 per day.

In Banaras, which is famous for Silk weaving and embroidery, about 51,000 children are presently engaged. Similarly in an important centre of silk weaving in Bihar, another 10,000 children are engaged in this trade.

Another study conducted by the National Institute of Public Cooperation and Child Development in the city of Bombay has revealed some startling facts. According to this study, about 30 per cent of the children employed started their work before the age of 6 and at an average by they work from 10 to 11 hours a day.

A pilot study of working children conducted in Madras, Madurai and Coimbatore stated that 31 6 per cent of children worked 10 to 11 hours a day, 23 per cent worked from 12 to 13 hours a day and 12 per cent worked from 14 to 16 hours a day. In Sivakasi (Madras) 40 to 45 thousand children are engaged to run the wheels of the factories. They work from 11 to 13 hours a day and receieve a piece rate wage ranging from 50 paisa to Rs. 2 per day. The incidence of child labour is also very high in tea gardens and other plantations. In 1972, it has been estimated that the average daily employment of children on plantation in Assam, West Bengal, and South India was 39956 i e. 5.2 per cent of the total labour force in those areas.

A survey jointly conducted by the Gandhi Peace Foundation and the National Labour Institute about the practice of bonded labour in eight states, Andhra Pradesh, Bihar, Gujart, Karnataka, Madhya Pradesh, Rajasthan, Tamil Nadu and Uttar Pradesh reveals that about 21 per cent of the bonded labourers in these states are below 20 years of age. The percentage of labourers below 15 (child labour) was found to be 21, 10.3 and 8.7 in Andhra Pradesh, Karnataka and Tamil Nadu respectively.

MAIN PROBLEMS

Low Wages. The main problem of child lobour is that they are paid extremely low wages. These range from 0 50 paisa to Rs. 2 per day. Even judging by poorest standards of living, this wage is just not enough to provide even the subsistance living to the child. It, therefore, results in malnutrition on the one hand and hard physical labour on the other which subjects the child worker to constant deterioration in terms of health and medical care and shortens his life span in the long run.

Long Working Hours. The working hours of the child worker are unbelievably too long. He works for 12 to 16 hours a day. Before the affluent children are awake, the unfortunate child is at the workshop, sweeping, dusting and cleaning the shelves of his owner. He is to collect water for drinking, get cigarettes for his boss and obey all odd orders from his superior counterparts in the workshop. He is not even permitted a breathing space. He has no time to relax and replinish his energies or to have some recreation. He wakes up to work and winds up to sleep. He does not know the world beyond his routine.

Insecurity. He is under constant threat and depression to loose his job. There is no law to protect him. There is no insurance, no provident fund and no pension for him. He is at the mercy of the unscruplous master. He stays or goes as according to whims and ways of his superior.

Loss of Talent. The more serious problem, in fact, is that child labour results in a considerable waste of national talent. Given the proper rear and care, education and training, who knows the child working in a workshop may have turned to be a great scientist, physician or a philosopher. Larger the extent of child labour, greater is the waste of national talents.

"With the widening gap between rich and poor, between villages and urban areas, the fragile structure of the society naturally disintegrates forcing the weak and the innocent to become victims of exploitotion" Abject poverty force the parents to send their children to seek employment. Agricultural indebtedness and surplus man power in the primary sector have also forced the children to work. Several Acts have been legislated for the protection and welfare of the child but it appears that these have been of no avail. While as the legislations enacted bar the entry of children into the organised sector, economic compulsions force them to accept low paid jobs in unorganised sector where other measures of welfare are also lacking.

Total abolition of child labour in India in the present context may not be possible but it is strongly recommended that the government should evolve an all India machinery to see that children in India are not exploitated. Besides taking steps to enforce the existing legislative machineay strongly, it will have to be seen that children work in the jobs which are safe, secure and healthy and get proper remuneration for their work. So long as India remains a poor country with about 50 per cent population living in abject poverty, it will be too much to hope that the extent of child labour in India will show any decline in future.

Black Money — Where it Originates and How it Circulates

By **B. M. Jauhari** *

While every one talks about the evil of black money no one does anything about it. It has, in fact, proliferated over the decades. A major reason for its growth is the reluctance of the political parties to make possible the enactment of stringent legislation to make its accumulation difficult. In this article, the author provides an insight into its ramifications and suggests how it can be tackled effectively.

MONEY, which is a blessing to mankind, can also become a source of peril and confusion.[1] The parallel economy of black money has, for reasons best known to the political leaders, been allowed to stay on and expand. Black money is black so far as its origin, nature and scope is concerned. As the Wanchoo Committee[2] says, "the term not only stands for money earned by violating legal provisions, even social conscience, but also suggests that such money is kept secret and non-accounted for". Thus today, the term denotes unaccounted money, concealed income or undisclosed wealth, but also money involved in transactions wholly or partly suppressed. The same Committee was also of the view that tax evasion and black money are closely and inextricably interlinked — one is the cause and the consequence of the other. Tax evasion creates black money and black money induces tax evasion.

No one can come out with a definite opinion so far as the size of black money is concerned. Many committees and commissions besides individual studies have indicated different amounts at different times. But it can be said with certainty that the amount has been increasing over years and now it may be anywhere between Rs. 25,000 to 30,000 crores.[3] The factors, which give birth to this black institution, are many and varied. The Wanchoo Committee had indicated that high rate of personal taxation was mainly responsible for tax evasion and the consequent creation of black money. There is no doubt about it for the direct taxes are not only many but they are steeply progressive as well.

It is difficult to tax and to please but it is equally unwise to tax and to tease. Human element is at the root of this socio-economic problem. The tax payers, as such, find it convenient to conceal their genuine income and assets. Further, acute inflation and controls exercised by the government have added fuel to the fire by promoting black marketing, hoarding, profiteering and tax evasion. Political parties, when they accept or ask for donations, become active partners in the generation of black money. We have yet to evolve a code of conduct for the business class. They indulge in such practices which further the cause of black money. Not only the assessees but the assessors as well are equally responsible for this economic malice. The enforcement of tax Laws is defective and the harassment caused to genuine tax payers compels them to hide the actual facts. It has also been revealed that the tax administration, by and large, also comes, under the influence of the people who own and control black money.[4]

The consequences of black money are not only serious but they are in fact detrimental to our national interests. This monster is adding to its size and is posing a challenge to our economy. No parallel government can be permitted by a legally constituted government. Then why this parallel economy? The basic fact of life of the Indian citizen is that both in economic and political fields, he is ruled by black money. Black money is not on the periphery of his existence, it is in the centre itself.[5]

The first attempt to curb the evil was made by the government in 1951 when a voluntary disclosure scheme was introduced. This scheme was enacted with more vigour and gusto in 1965 and 1975. But the results have not been upto the mark. The amount thus recovered was not very significant. The Janata Government. in order to justify that they were alive to the situation, come out in January 1978 with a demonetisation scheme of higher denomination currency notes of Rs. 1,000. 5,000 and 10,000. But it proved to be another flop. The bearer bond scheme, launched in January 1981, is the fifth in the series of measures to do away with the parallel economy. Currently the government is considering some more measures and they may be announced any time.

Will these bonds be able to unearth a substantial amount of black money?. The answer to this question is an emphatic 'no'. The re-introduction of bonds has itself given a blow to the efficacy of the measure. The success so far is not at all satisfactory as the amount fetched by them is nowhere near the budgeted figure.[6] The bearer bonds not only provide respectability to black money but also provide a premium on tax evasion. "Owners of the black money in this country", indicated the editorial of *Times of India*, have never had it so good. The new Ordinance inviting them to invest in special bonds is nothing short of a licence to convert black money hoards into white".[7] There is no limit to investments and nothing will be asked about the source of money. In order to induce the prospective investors, the government have exempted such investments from all taxes. But the most puzzling aspect of the issue is that inspite of these exemptions, concessions and allurements, the people are not investing in bonds very enthusiastically. The black money is in circulation and is in fact earning much more at the present than what the government promises to return

---

* Deptt. of Economics, M. M. H. (P.G.) College, Ghaziabad.

after a decade or so. Hence this measure has received only a lukewarm response.

Investment in bearer bonds is an uneconomic proposition. The institution of black money is posing a threat to our economic and political stability. It has acquired a bigger size and the monster cannot be finished by easy ways. It definitely calls for certain stringent, effective and more strict measures — financial, fiscal, political and moral as well. Some unpleasant decisions are to be made. To be more specific it means a non-discretionary political will along with economic expediency. The demon of black money can be finished only by a meaningful and purposeful diversified strategy.

In order to achieve a better enforcement of tax Laws, the law related to direct taxes should be made simpler, rational and favourable to marginal tax payers. They should also create a climate of confidence among the tax payers. Further, the rates of direct taxes should be reduced with still more incentives to save and invest. The tax administration should also appreciate the difficulties and genuine grievances of the assessees and should deal with them in a more humane manner. The government should remove all discretionary controls in the field of production, procurement and distribution so that a fair market comes into existence. There is ample scope to simplify the licensing system in order to minimize the rigours involved in it. An effective control of inflationary pressures becomes an urgent and imperative necessity. Monetary management and fiscal discipline would go a long way in salvaging the situation. Profiteering, hoarding and black marketing should be made cognizable offence and the people responsible for them should be dealt with accordingly. As already indicated, the solution to this problem requires political will. All political parties should agree to a code of conduct which also includes a total ban on donations to their party funds and less expensive elections. Demonetisation can also be considered as a distant necessity, especially if other measures fail to have the required impact. The Union Finance Minister has also indicated about more drastic measures to unearth black money after the closure of the special bearer bond scheme.[9] One can look forward to the new measures so that this parallel economy is nipped into the bud in the near future, leading to a better, more just and equitable society an egalitarian economic order.

REFERENCES

1. D. H. Robertson—Money, p. 15.

2. K. N. Wanchoo Committee on Direct Taxes — 1971.

3. *Indian Express*, January 31, 1981.

4. Mr. Inder Malhotra — *Times of India*, December 20 and 27, 1981.

5. VadiLal Dagli — *Commerce*, January 31, 1981.

6. The *Times of India*, April 14, 1981, Ibid, January 1, 1982.

7. The *Times of India*, January 14, 1981.

8. C. C. Choksi Committee Report on Direct Taxes, October 1978,

9. Union Finance Minister—Speech, April 20, 1981.

PRIME MINISTER'S NEW 20-POINT PROGRAMME

Broadcasting to the nation on January 14 on the occasion of completion of two years in office, the Prime Minister, Mrs. Indira Gandhi, announced the new 20-Point Programme to invigorate national life and to achieve socio-economic changes. Under the Programme, the Government propose to :

1. Increase irrigation potential, develop and disseminate technologies and inputs for dry land agriculture.

2. Take special efforts to increase production of pulses and vegetable oil seeds.

3. Strengthen and expand coverage of Integrated Rural Development and National Rural Employment Programmes.

4. Implement agricultural land ceilings, distribute surplus land and complete compilation of land records by removing all administrative and legal obstacles.

5. Review and effectively enforce minimum wages for agricultural labour.

6. Rehabilitate bonded labour.

7. Accelerate programmes for the development of Scheduled Castes and Tribes.

8. Supply drinking water to all problem villages.

9. Allot house sites to rural families who are without them and expand programmes for construction assistance to them.

10. Improve the environment of slums, implement programmes of house building for economically weaker sections, and take measures to arrest unwarranted increase in land prices.

11. Maximise power generation, improve the functioning of electricity authorities and electrify all villages.

12. Pursue vigorously programmes of afforestation, social and farm forestry and development of bio-gas and other alternative energy sources.

13. Promote family planning on a voluntary basis as a people's movement.

14. Substantially augment universal primary health care facilities, and control of leprosy, T.B. and blindness.

15. Accelerate programmes of welfare for women and children and nutrition programmes for pregnant women, nursing mothers and children, specially in tribal, hill and backward areas.

16. Spread universal elementary education for the age-group 6-14 with special emphasis on girls, and simultaneously involve students and voluntary agencies in programmes for the removal of adult illiteracy.

17. Expand the public distribution system through more fair price shops, including mobile shops in farflung areas and shops to cater to industrial workers, student's hostels, and make available to students text-books and exercise books on a priority basis and to promote a strong consumer protection movement.

18. Liberalise investment procedures and streamline industrial policies to ensure timely completion of projects. Give handicrafts, handlooms, small and village industries all facilities to grow and to update their technology.

19. Continue strict action against smugglers, hoarders and tax evaders and check black money.

20. Improve the working of the public enterprises by increasing efficiency, capacity utilisation and the generation of internal resources.

Usefulness of Asian Clearing Union

The Tenth Meeting of the Board of Directors of the Asian Clearing Union was held in New Delhi on February 11 and 12. The Meeting was held in India for the first time. A background note giving information relating to the establishment of the Union, the procedure governing settlement of current transactions and the transactions actually put through the Union by the participating central banks during the years from 1975 to 1980 is given here.

THE Asian Clearing Union was established in December 1974 on the initiative of the Economic and Social Commission for Asia and Pacific (ESCAP) with the central banks of India, Bangladesh, Iran, Nepal, Pakistan and Sri Lanka as the original participants. The Union commenced clearing operations on November 1, 1975. The Union of Burma Bank joined the Union in 1977. There are seven participants (members) now. The Union's headquarters is at Tehran (Iran). The Bank Markazi Iran acts as the agent for managing the affairs of the Union.

The primary purpose of the Union is to enable the settlement of current transactions among participants on a multilateral basis, more or less on the lines of a clearing house for cheques. Every two months, each member collects/pays from/to the Union the outstanding credit/debit balance in its account. As the settlement is made for the net amount, it help to economise the use of foreign exchange. Transactions relating to the Asian Clearing Union are handled for the present at the Bombay (Fort), Calcutta, Madras, New Delhi, Bangalore and Kanpur offices of the Reserve Bank of India.

Under the original arrangement, each individual transaction was required to be cleared through the participating central banks. In view of the enormous increase in the number of transactions and with a view to streamlining the procedure, the Board of Directors, of the Asian Clearing Union modified the arrangement with effect from October 1, 1980. The salient features of the modified arrangement are as under :

> The authorised dealers themselves set the transactions by debit or credit to their correspondents' accounts; only the funding of such accounts or the disposal of their surplus balances is arranged through the central banks.
>
> All instruments of payment in the currency of participating countries (demand drafts, mail transfers, telegraphic transfers and bills of exchange payable at sight and drawn under irrevocable letter of credit) may be used. Excluded from the purview of the Union are petroleum and natural gas and their products, Indo-Nepal trade, and Iran-Pakistan trade.
>
> For the purpose of settling the transactions, the authorised dealers are allowed to maintain/open accounts with/on behalf of their correspondents in the member-countries in Sri Lanka rupee, Pakistan rupee, Iranian rial, Burmese kyat and Bangladesh taka. These accounts are designated "ACU Clearing Accounts" and are to be kept distinct from other accounts.
>
> Authorised dealers are eligible to dispose of the surpluses in their accounts with the correspondent banks or to get such accounts replenished by sales to or purchases from their own central bank, as and when necessary.
>
> Each central bank stands ready to sell to and buy from authorised dealers/banks in its country the currencies of other members at rates based on the rates of exchange in terms of the Asian Monetary Unit announced by the Asian Clearing Union, with a loading margin of one tenth of one per cent.

The settlement between the participant central banks is made through the Asian Clearing Union. The accounting unit of the Union is the AMU (Asian Monetary Unit). One AMU is treated as equivalent to one Special Drawing Right (SDR). Each participant is to declare a middle rate (i e. the mean of the spot buying and selling rates) for its intervention currency to the Union. The intervention currency is pound sterling for India and Bengladesh and dollar for Nepal, Pakistan and Sri Lanka. The Burmese kyat and Iranian rial are directly linked to SDRs. The Union works out the cross rates for the AMU vis-a-vis each participant's currency on the basis of the middle rate advised and the daily rates for the intervention currency in terms of SDRs as announced by the International Monetary Fund.

Each month is divided into two periods—first accounting period from 1st to 15th and second accounting period from 16th to the end of month. The AMU-participant's currency rates are announced by the Union for each accounting period. It is the average of the daily rates from 12th to 26th of the previous month for the first accounting period and the average of the rates for the period from 27th of the previous month to the 11th of the current month for the second accounting period. If the AMU-participant's currency rate on any date shows a change by more than 1-1/8 per cent from the prevailing rate, the rate for that currency will be revised by the Union. The new rate will be effective from the second day following the date of communication of the rate by the Union and be valid till the end of accounting period.

The Reserve Bank of India undertakes purchases and sales of the participants' currencies, viz., Bangladesh taka, Sri Lanka rupee, Iranian rial, Pakistan rupee and Burmese kyat. It is also required to deliver and receive Indian rupee to/from authorised dealers on account of the sales and purchases made by other participant central banks, viz., Bangladesh Bank, Central Bank of Cylon, Bank Markazi Iran, State Bank of Pakistan and Union of Burma Bank. The Central Office of the Reserve Bank works out the spot buying and selling rates for the currencies of member country according to the procedure given below, the rates being expressed as so many units of foreign currency per Indian Rs. 100:

Prior to each accounting period, the Asian Clearing Union advises the Central Office the rate of exchange between the AMU and the currency of every member-country, expressed as number of units of a participant's currency per AMU.

From the above rate, the base rate (middle rate) for each currency (Bangladesh taka, Pakistan rupee, Sri Lanka rupee, Iranian rial, Burmese kyat) per Rs. 100 is worked out and expressed to four decimal places.

The buying and selling rates include a loading margin of one-tenth of one per cent over the base rate i.e. the buying rate is 100.10 per cent of base rate and the selling rate is 99.90 per cent of base rate.

The rates are advised to authorised dealers and the public through the Press Relations Division. The rates are also available on the Reuter Monitor screen.

PUBLIC SECTOR

Promising Trends at Salem Steel Plant

SALEM Steel Plant ended the year 1981 on an optimistic note of production and despatches. This was particularly encouraging as Salem Steel Plant went into commercial production about hundred days ago on September 13, 1981. Production of stainless steel sheets and coils during 1981 was 823 tonnes, and despatches 379 tonnes. The production till the end of March 1982 is expected to be of the order of 3,180 tonnes. Production of saleable products during December was 505 tonnes as against 136 tonnes during November.

The Sendzimir cold rolling mill, Annealing and Pickling Line and the Slitting Line exceeded their targets set for December. As against 1,800 tonnes of the monthly plan for December, Annealing and Pickling Line processed 2,189 tonnes, an achievement of 120 per cent of the target. Similarly the production at Sendzimir mill of 1,124 tonnes was 102 per cent of the monthly plan of 1,100 tonnes for December. The saleable production of 505 tonnes represents the fulfilment of 84 per cent of the monthly target for December. During December, Salem Steel Plant produced, for the first time, 183 tonnes of 0.5 mm stainless steel coils, specially meant for utensil manufacture of which 48 tonnes had been despatched against orders.

Salem Steel products received good customer appreciation particularly in respect of stringent dimensional tolerences, superior surface finish and excellent formability. Some of the customers found Salem Steel materials superior to imported materials. They have been made available to a variety of customers in various thickness from 14 to 20 BG. These were meant for fabrication of equipment for chemicals, pharmaceuticals, fertilizers, food processing and other industrial applications.

Salem Steel Plant is readying itself for higher production targets for 1982-83. It is hoped that the power supply position in Tamil Nadu will be good and if no power cuts are imposed, Salem Steel Plant will achieve its targetted production of 3,180 tonnes of saleable products, fulfilling by March 1982 the complement of production during this quarter of Jan-Mar 1982. In tune with the other steel plants of SAIL, Salem Steel Plant plans to raise its production and despatches during the coming financial year. This will help obviate the necessity of import of stainless steel products and save the country considerable foreign exchange.

Golden Jubilee of Electroporcelains

Electroporcelains Division, Bangalore—the oldest division within Bharat Heavy Electricals Limited—is completing 50 years of operations and celebrating 1982 as the Golden Jubilee Year. Founded in 1932 by the then Government of Mysore under the guidance of Sir M. Visweswaraya, EPD has a historical background. The factory was set up initially as a government body under the name Government Porcelain Factory to manufacture low tension & telephone insulators, table-ware & art-ware. GPF entered into a technical collaboration with the world renowned insulator manufacturer, M/s NGK of Japan, in 1954 for the manufacture of high voltage insulators for the power sector. With a view to providing operational autonomy, the unit was converted into a public limited company in 1967 and re-named as Mysore Porcelains Limited. The production capacity of the factory at this stage was raised to 7,500 tonnes from 5,000 tonnes per year.

However, as the undertaking continued to suffer losses and in view of the importance of porcelain insulators for the growth of the power sector in the country, the unit was handed over to BHEL in 1976 as a subsidiary. Later, the unit fully merged with BHEL as Electroporcelains Division in 1980. Some of the progressive measures taken by BHEL since the takeover are introduction of professional management, induction of qualified personnel, modernisation of the plant in addition to, of course, providing the much needed financial support. This has resulted in significant improvement in the performance of the plant, as is amply evident by the steady growth in the production and profitability.

Glaxo Results Affected by Price-freeze

DURING the year ended June 30, 1981, Glaxo Laboratories (India) Limited showed higher turnover but profit was not commensurate with the sales volume. The company's sales improved from Rs. 80 crores in 1979-80 to Rs. 94 crores (figures rounded) in 1980-81. The profit before tax was lower at Rs. 8 crores compared to Rs. 10.28 crores in the previous year. Because of the lower tax liability, the after-tax profit was higher, at Rs. 5 crores, against Rs. 4.82 crores in 1979-80. The proposed equity dividend, including the interim dividend, is 16 per cent, same as in the previous year. The directors' report points out that the increased costs eroded the profits as they could not be transmitted fully to the buyer.

Work is proceeding on the transfer of a part of the company's activity for secondary manufacture to a factory to be established in the Ambad industrial estate at Nasik. In the area of family products, sales of GLUCON-D formerly marketed as GLAXOSE-D, were affected due to a shortage in the supply of dextrose monohydrate. Supplies of infant milk food were steady. Production of bulk drugs continued to register a satisfactory increase. Work has been continuing on the modernisation of the existing basic manufacturing facilities. Domestic production of Salbutamol, a vital anti-asthma drug and a product of original Glaxo international research, is inadequate to meet the requirments of the country. This product, therefore, continues to be imported. The application made in May 1980 for the grant of an industrial licence to manufacture bulk drugs at a new factory to be established at Ankleshwar, Gujarat, is still under process and a letter of intent is awaited.

Exports increased by 21 per cent from Rs. 2.69 crores in 1979-80 to Rs. 3.24 crores in 1980-81. At this figure, the company's export earnings nearly approached the direct foreign exchange outflow of the company on account of remittance of profit and direct imports of equipments, spares and raw materials. In fact, for the year ended March 1981, the company has once again won the topmost award in the category Drugs, Pharmaceuticals and Fine Chemicals, instituted by CHEMEXCIL.

Lower Sales, Profit By Herdillia Chemicals

Herdillia Chemicals Limited has recorded a lower rate of sales and profitability during the six months ended June 30, 1981. The company has changed its accounting year from December to June end. Therefore, figures for the full year cannot be compared with the figures for 6 months. The company's sales for the six months ended June 30, 1981 amounted to Rs. 16.22 crores, which is less than half of the sales during the previous 12-month period. Similarly, the pre-tax profit of Rs. 1.47 crores indicate low profitability as it is less than one-fourth of the previous 12-month period. The after-tax profit stood at Rs. 87 lakhs. Pre-tax profit as a percentage of sales has declined from 17 per cent to 9 per cent while the after-tax profit declined from 8 per cent to 5 per cent. The equity dividend has been reduced from Rs. 2 per share to Re. one.

The company's letter of intent for the recovery of Alpha Methyl Styrene, Acetophenone, Cumyl Phenols and Fumaric Acid has been converted into an industiral licence. Construction of the AMS plant is in an advanced stage and basic engineering for other projects is in hand. Its application for doubling the capacity of the Phthalic Anhydride plant is still under consideration of the Government. The company has also received a letter of intent for the manufacture of 2000 tpa of a new range of capacitor fluids to replace the existing imported fluid which has been banned in most parts of the world due to its toxicity. It will shortly file an application with the Foreign Investment Board for approval of the collaboration agreement with General Electric, USA, who will provide the know-how. The company's application for a 40,000 tpa Styrene and 20,000 tpa Polystyrene facility has been rejected.

Shree Vallabh Glass Scales New Peaks

Revenues and profit of Shree Vallabh Glass Works Limited scaled new peaks in the year ended June 30, 1981. The total revenue, at Rs. 25.49 crores during the year under review, shows an increase of 100 per cent over previous year's revenue at Rs. 15.92 crores on an annual basis. The increase was not confined to volume only. The profitability also improved. This can be seen from the fact that the gross earnings stood at Rs. 4.80 crores as compared to the gross earnings of Rs. 2.48 crores in the previous year, on an annual basis.

Throughout the year, superior quality sheet glass was available from the PPG plant. The Boiser Project is expected to commence commercial production by early 1982. The delay is mainly due to late arrivals of certain imported equipment and machinery required for obtaining optimum fuel efficiency. The Joint Sector Glass Project being promoted by the company in partnership with Gujarat Industrial Investment Corporation Limited (GIIC), Ahmedabad, in the name of Gujarat Vallabh Glass Limited, will take up manufacture of float glass, fibres glass, polyvinyl butryral foils, electrocast refrantories including ceramic fibres and will be located in Gujarat. The total exports of the company for the year were of the order of Rs. 2.95 crores as compared to Rs. 3.18 crores in the preceeding year of 15 months and, when compared on annual basis, it shows the increase of 16 per cent.

SOUTHERN
ECONOMIST

March 1, 1982

CONTENTS

EDITORIALS 1
Soft-Pedalling Inflation; Less Steam, More Smoke

CURRENT TOPICS 4
South-South Dialogue; Tamil Nadu Budget; Picture on Trade Front

GLASS HOUSE GOSSIP 7

The Press as a Whipping Boy 8
By K. N. S.

SPECIAL ARTICLES 9
Population and Food Supply: Need to Find New Methods of Growing Crops
By R. P. S. Rana
Planning for Water Resources in India
By. V. C. Sinha
Agricultural Mechanisation: Is it a Boon or a Curse to our Farmers?
By K. Parameshwara Rao
Utilization of Irrigation Potential: Basis for Assessment
By L. V. Ambegaonkar

BOOK REVIEWS 23
Resource-Allocation in Indian Planning

RAILWAY BUDGET 25
Record Freight Loading in 1981-82

PUBLIC SECTOR 28
Government Undertakings Fare Better in Southern Region

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Soft-Pedalling Inflation

THE maiden budget of Mr. Pranab Mukherjee for 1982-83 by and large seeks to maintain the *status quo*. The two previous budgets of the Sixth Plan, presented by Mr. R. Venkataraman, at least had the merit of favouring certain classes which benefited from the raising of the income tax threshold. Another merit of these budgets was that they did not unduly add to the indirect tax burden. These budgets resulted in a widening of investment activity in the private corporate sector although their effect on inflation was not particularly salutary. The weakness of Mr. Venkataraman's budgets lay in their failure to attack inflation head on. For any fiscal policy to have a favourable effect on the price-level, there should be a judicious blend of supply-side policies with stringent measures of demand-management. Although Mr. Venkataraman's budgets paid special attention to the supply-side, they did not go far enough to deal with demand pressures. Demand-management policies were conspicuous by their absence with the result that demand-supply imbalances got aggravated, adding to the price-spiral. Tinkering with money management only worsened the situation since Mr. Venkataraman adopted a willing-to-wound but afraid-to-strike attitude. Throughout, he remained a silent spectator to the havoc of black money.

Nevertheless, when Mr. Venkataraman left Finance, the economy was in a better shape, with the sectors coming under the infrastructure — electricity-generation, Railways, ports and so on — giving better performance, agricultural production showing a marked improvement and industries showing a steady acceleration in the growth rate. The only sector which did not favourably respond to the Government's measures to the desired extent was the foreign trade sector where the growth in exports was not adequate to narrow the trade gap. Even here, the $5.7 billion facility opened up by the IMF loan provided the much-needed "cushion" against violent swings in the country's foreign exchange holdings.

This provided a favourable—if not the ideal—background against which Mr. Mukherjee could have produced, had the bureaucrats allowed him to do some original thinking, an imaginative budget aimed at setting the economy on a new course. What emerged on the evening of Saturday was, however, the familiar mixture of new levies which will certainly bring in a hefty sum — Rs. 559 crores, to be precise — to the exchequer but is hardly likely to meet the major challanges facing the country. What the country needed was a proper "mix" of fiscal discipline and fiscal incentives which helps in diverting investible funds from non-priority areas to crucial priority areas. Mr. Mukherjee's budget does very little to give a fillip to the private corporate sector which was asking for (1) a general lowering of the level of company taxation and (2) a more realistic and liberal allowance for depreciation. This explains why the major stock markets of the country reacted bearishly to Mr. Mukherjee's budget presented on the last working day of February. Except for the abolition of wealth tax on plantations, there is nothing in Mr. Mukherjee's scheme of direct taxation which will help to improve the profitability of companies engaged in production. In the field of indirect taxes, however, Mr. Mukherjee's budget provides incentives to firms engaged in export. Further, companies operating in free trade zones will be allowed to sell 25 per cent of their production in the domestic market. As many as 38 items secure excise duty concession on "excess" production.

In a period of continuing inflation, one way of protecting the income tax payers from an erosion in purchasing power is to raise the exemption limit to the same extent as the erosion caused by inflation. Mr. Venkataraman had made a small beginning in this direction by raising the exemption limit from Rs. 12,000 to Rs. 15,000. Mr. Mukherjee could well have raised it further to Rs. 20,000 to keep the effective limit at about the same level. All that he has done to help the middle class assessees is to raise the standard deduction from 20 per cent to 25 per cent. To give an egalitarian touch to an otherwise 5-star budget, Mr. Mukherjee has raised the income tax on higher slabs. Since the classes who will be affected by these increases are beyond the pale of *swadeshi* socialism, they will not cause loud groans.

Be that as it may, a close look at Mr. Mukherjee's budget proposals reveals that he is not totally oblivious of the need to mop up savings. This is evident from the liberalisation of deductions for LIC premia and provident fund contributions. Mr. Mukherjee has also formulated two new savings schemes, namely, the Social Security Certificate and the Capital Investment Bond to encourage savings but it is wondered if they will catch the fancy of savers who are already lured by a variety of deposit schemes launched by the banks. Besides, the 7 per cent interest offered on the Capital Investment Bond almost amounts to 3 per cent negative interest in a regime of double digit inflation. The only attraction that this scheme offers to the better-off sections is that they can avoid paying income tax on the amount invested in these bonds. To the extent that the bulk of the additional tax revenues of some Rs. 559 crores will accrue from indirect levies (primarily from excise and customs duties) Mr. Mukherjee's scheme of taxation is bound to have an inflationary impact. This will be reinforced further by resort to created money to the extent needed to close the uncovered deficit of Rs. 1,356 crores in 1982-83.

While on the subject of deficit financing, two disquieting trends should not escape attention. Firstly, the device of deficit financing as an inevitable alternative to taxation is gaining respectability. This is evident from the deficits of the past three years. In 1979-80 and 1980-81, the deficits averaged Rs. 2,000 crores. In 1981-82, the deficit increased from Rs. 1,539 crores to Rs. 1,700 crores. At the previous year's level of taxation, the deficit for 1982-83 is estimated to exceed Rs. 2,000 crores but the new proposals, including those in the capital budget, will reduce the gap to Rs. 1,365 crores. Secondly, the extent of deficit financing actually resorted to, is often under-played. Even the borrowing programme of the Government assumes the character of deficit financing to the extent that it is absorbed within the banking sector. Prudence required that in an inflationary situation, the Finance Minister should have set a limit for deficit financing, the suggested limit for this year being Rs. 1,000 crores.

In a sense, the annual budgets have lost their sanctity as a result of the proclivity of Finance Ministers to raise funds through extra-budgetary devices. To get a full measure of the resource-mobilising activity of the Government, one has to take into account not only of the extent of additional revenue raised in the Uuion Budget but also the price-increases announced and the departmental tariffs revised in between two budgets. Last year, for instance, there was a hefty increase in the price of petroleum products, apart from the increase in the Railway freight rates announced at the fag end of the year. Just a few weeks before the annual budget, P & T announced a sharp increase in its tariff for telephones and telegrams. As the recent Railway Budget and the Union Budget showed, another round of increases in the price paid for the services of these sectors has been attempted. If the public reaction to these measures is any indication, these slip-shod, *ad hoc* practices have not endeared the Government to the general public.

True, in a planned economy, the importance of raising the level savings and investment cannot be over-emphasised. This is precisely where Mr. Mukherjee can claim credit for raising the plan outlay by 21 per cent in 1982-83. Even with this increase, the planners may be able to just reach the physical targets set for the third annual plan. What is disquieting however is the fact that much of the money raised is eaten up by departments which do not materially add to the sum total of goods and services. For instance, Defence absorbs Rs. 5,100 crores — some 500 crores more than last year — and the amounts that will be spent on additional dearness allowance totals Rs. 350 crores. It is a pity that, in these matters, the Finance Minister has chosen to follow the line of least resistence.

Less Steam, More Smoke

IT is pointless to harshly criticise the 1982-83 Railway Budget for its proposals to increase the freight rates and passenger fares. At Rs. 261.45 crores, the additional revenue that is estimated to accrue to the Railways as a result of these increases is of the same order as the additional revenues that are expected from taxation measures introduced in a typical Union Budget. The Railway Minister, Mr. P. C. Sethi, has justified this additional burden on the Railway users by the need to cover the gap of exactly the same order between the net revenue of the Railways and its committed liabilities. Fulfilment of these commitments, like part-liquidation of its indebredness to the general revenues, is governed by certain well-laid norms and the Railways have enough elbowroom to adjust these payments over the years.

In other words, it is possible to argue that, if the Railway Minister had chosen not to add to burden on the Railway users, in view of the inflationary conditions prevailing in the country, he could well have contained this year's commitments within Rs. 247.70 crores — the net revenve: However, a beastly hike in the fares and freight rates became unavoidable because Mr. Sethi chose to fully meet the expenditure chargeable to the development fund and to partly discharge the debt to the general revenues. The need to bring the "price" paid for the services into an alignment with the "cost" of the services is also keenly felt because of the Government's commitment to the International Monetary Fund. It is worth remembering that the transport sector — the Railways in particular — remains a major beneficiary of international lending. And international bankers tend to frown on organisations which liberally subsidise the sale of their products and services.

But the Railways have become converts to the principle of sound budgeting practices rather abruptly. Only two months ago, in December 1981, the Railways announced an additional levy of 10 to 15 per cent on freight tariff to collect Rs. 80 crores more in the last quarter of 1981-82. This, again, was justified on the plea that the Railways had to incur an additional expenditure of Rs. 245 crores while increased freight haulage would net in only Rs. 170 crores during the year that closes on March 31, 1982. Apart from this gap-filling argument, the Railways have also brought to the fore the "cost of service" principle in order to justify the latest hike in parcel freight rates and the removal of several categories of goods from the exempted list. It goes without saying that these increases will push up the prices of the goods transported by the Railways.

In the area of passenger traffic, the Railway Minister has resorted to an across-the board increase, taking shelter under the recommendations of expert committees which emphasised the need for aligning the fares with the costs. While a measure of rationalisation with a view of reducing the element of subsidy may be justified — this is the fig leaf behind which Railway Ministers try to conceal the usavoury features of their budgets — their attempt to bring Railway fares up to the level of fares charged by road transport services cannot but be deplored. In this matter, they will do well to learn from the experience of the Railways abroad which are fighting a losing battle *vis a vis* road transport. The long-term interests of the Railways will be served only by keeping their passenger fares a notch below those of the road transport operators. It is short sighted policy to let the difference reach the vanishing point.

This is precisely what the 1982-83 Railway Budget seeks to do, in pursuit of its myopic policy of giving precedence to freight traffic over passenger traffic. In a vast multi-lingual country like India, the cause of national integration is best served only by encouraging travel by the people of different states. Inflationary increases in passenger fares conflict with the objective of national integration. While the Railways in advanced countries like Japan, France and Britain are introducing new designs to augment the speed of trains to well beyond 200 km. per hour, in order to deflect air passenger traffic, our Railways are reducing the speed of some of our super fast trains just to aviod accidents. And there is something perverse and quixotic about proposals like the one which seeks to raise the exemption limit for children's free travel from 3 years to 5 years.

What makes the new burdens imposed on the Railway users more grotesque is the steady deterioration in the Railway services, as is evident from the increasing number of accidents which continue to take a heavy toll. Negligence of the Railway staff is one of the contributory causes of this increase but it cannot be denied that the basic malaise of our Railways is their inability to replace obsolete rolling stock and to carry out track renewal expeditiously. Although this is recognised in the Railways' Sixth Plan, which is basically a "rehabilitation" plan, the investment of Rs. 5,100 crores ear-marked for the period is rendered woefully inadequate by the rise in prices during the past two years. To be sure, our Railways do not suffer from a dearth managerial talent or technical skills to carry out a programme of modernisation. The major constraint remains one of dearth of resouces on the one hand and poor organisational ability on the other. Despite the fact that capital-at-charge has increased nearly eight times during the past 32 years, the Railways continue to be tapped as a miltch cow which can always be used to supplement the revenues of the Government.

Like the dinosaurs of pre-historic times, our Railways seem to be dying a slow death owing to their inebility to adapt themselves to the requirements of changing times. And there is nothing in Mr. Sethi's budget to reassure the public that there will be a determined effort to overcome these shortcomings. The steady improvement in the capacity utilisation in the Railway workshops is heartening but the fact remains that, even with 100 per cent capacity utilisation, the existing workshops will not be in a position to overhaul all the wagons and passenger coaches that are shunted in. Viewed in this light, Mr. Sethi's assurance that over-aged rolling stock would be speedily disposed of as scrap will have to be taken with a pinch of salt. Similarly, the question of renewing nearly one-fifth of the Railways total track mileage of 61,240 stares one in the face. Some 50 per cent of the Railways' annual plan (1982-83) outlay of Rs. 1,137 crores is proposed to be spent for this purpose but even allocations of this order are totally inadequate for speeding up tract renewal. All this boils down to saying that unless the Railways solve the resource riddle, no tangible improvement is possible either in the safety-standards or in the passenger and goods carrying capacity of the system.

The process of modernisation of our Railways has received a set back owing to the oil price increase in the seventies. The pattern of the Railways' rolling stock still reveals a dominance of steam locomotives and the switch-over to diesel traction has been rather slow. The need for augmenting passenger-carrying capacity has far outpaced the capacity available at the Integral Coach Factory and BEML. In the past, our Railways were a major beneficiary of loans from IDA — the soft-loan window of the World Bank. In view of the present parlous condition of IDA resources, it may doubted if the Indian Railways can expect any sizable assistance from this source for the purpose of modernisation.

BUDGET AT A GLANCE

(In crores of rupees)

Actuals 1980-81	Budget Estimate 1981-82		Revised Estimate 1981-82	Budget Estimate 1982-83
2624.02	3276.75	(a) Gross Traffic Receipts	3541.80	4175.79
2232.46	2464.64	(b) Ordinary working expenses	2714.64	3052.90
220.00	350.00	(c) Appropriation to Depreciation Reserve Fund	350.00	500.00
84.00	98.50	(d) Appropriation to Pension Fund	98.50	148.00*
2536.46	2913.14	(e) Total working expenses (b) + (c) + (d)	3163.14	3700.90
87·56	363.61	(f) Net Traffic Receipts (a) - (e)	378.66	474.89
39.93	36.19	(g) Net Miscellaneous Receipts	43.36	40.02
127.49	399.80	(h) Net Railway Revenue (f) + (g)	422.02	514.91
325.36	349.91	(i) Dividend payable to General Revenues	370.18	405.12
–197.87	+ 49.89	(j) Gross surplus (+) or Shortfall (-) (h) - (i)	51.84	109.79
...	49.89	(k) Appropriation to Railway Development Fund and Payment of Deferred Divident Liability	51.84	109.79
...	...	(l) Net Surplus/Shortfall (j) - (k)	...	...
96.1%	88.8%	(m) Operating Ratio	89.3%	88.6%
2.1%	6.3%	(n) Percentage of net Revenue before payment of dividend to General Revenues on the Capital-at-Charge	6.4%	7.2%

* With Rs. 2 crores from Misc. expenditure Grant Nos. 1 & 2 the total Contribution to Pension Fund is Rs. 150 crores.

CURRENT TOPICS

South-South Dialogue: Tame Outcome

THE 3-day huddle of the developing nations, the so-called south-south conference, ended not with a bang but with a whimper. Indeed, it would have sounded unnatural if it had concluded with a bang. Only confrontations end with a bang. And consultations among like-minded nations do not generally end on a recriminatory note. But what surprised the observers was the undertone of helplessness that permeated the New Delhi deliberations. The summing up by Chairman of the conference, Mr. G Parthasarathy, does not contain anything to plant one's teeth into and to chew over. What are the things that generated heat, at the Vigyan Bhavan huddle? Well, energy for one; food for another. Foreign aid came in for heated discussion; so did trade barriers erected by the richer nations under the compulsions of a global recession. Commodity agreements came in for discussion. There was also mention of the Common Fund.

All these topics are familiar to the participants in the North-South dialogues held at various levels, Cancun included. In a sense, their discussion at the New Delhi meeting was like staging Hamlet without the Prince. But then, did not the South-South meeting enable the developing nations to arrive at agreed positions so that they can present a common front at future negotiations? At Cancun, there was consensus over the need to start global negotiations on issues of interest to the North and the South. The Delhi meeting reiterated this position and expressed the hope that the U.N. General Assembly, which will be starting its 36th session soon, will take up this issue. On food, the need to help the food deficit regions and to step up food production among the LDCs was emphasised. The meeting denounced the use (by the richer nations) of food as a political weapon. What was not emphasised, however, was the disturbing fact that a major disincentive to food production in some of the crisis-prone areas was the indiscriminate import of food from developed nations. Some one should have pointed out India's own sad experience with PL-480 supplies or the experience of the nomads in the Sahel region where people have taken to softer grains and have almost given up growing food crops.

On energy, again, the participants recognised the need for pumping in massive assistance to the energy sector in the LDCs. They also recalled the proposal to set up an energy affiliate of the World Bank. This was almost like flogging a dead horse, when one considers that the idea was shot down by President Reagan and his friends at Cancun. The participants hoped that these and other issues (tariff reductions, Common Fund and so on) would be raised in appropriate forums like UNCTAD VI and GATT. They also expressed concern over the non-fulfilment of contributions to IDA VI and the uncertain outlook for IDA VII replenishments. But it may be doubted if the pious sentiments expressed at the South-South meeting registered any impression on the richer nations.

What surprised one more, however, was the ambivalent attitude of the participants over South-South co-operation. Discussion on the advantages that flow from an enlargement of trade among the developing countries lacked a clear focus. This may be partly explained by the absence of complementarity, to the desired extent, and also by traditional trading arrangements which LDCs have with developed nations. Countries like India, Mainland China, Taiwan, South Korea, Singapore and Hong Kong are in a position to sell a large variety of industrial products, including capital goods, to the other LDCs but the fact remains that most countries of the south are outward-looking. Japan, for instance, remains the major supplier to the ASEAN countries although these nations will find it to their advantage to import from countries like India. Similarly, several African countries are tied to the European Economic Community by special trading arrangements. It is a pity that the New Delhi meeting did not witness a candid exchange of views on this subject which has a direct bearing on South-South co-operation.

Tamil Nadu Budget : Quaint Arithemetic

ALTHOUGH the Tamil Nadu budget for 1982 83 contains many good points, it does not carry conviction. The temptation to say that it is just another exercise in gimmickry needs to be resisted because if a measure is aimed at helping a section of the poor, one should not grudge the ruling party the political dividends that flow from such a measure. We are referring to the scheme to provide free meals to all school-going children, announced in the budget. Preliminary estimates place the cost of the scheme at Rs. 100 crores but it may go up further. This and the proposals to raise the minimum pension of government employees and the old age pension of other categories reflect the populist policy of AI-ADMK. But a closer examination of the budget proposals of the Finance Minister, Mr. Nedunchezhian, reveals that this has been at the cost of the soundness of the state's finances.

There is surely something odd about a budget which reveals a big revenue surplus of nearly Rs. 200 crores but juggles with the sums to show an overall gap of Rs. 204 crores, even after imposing new taxes to net in an additional revenue of Rs. 38 crores. There is nothing refreshingly original about the exercise. As usual, the Finance Minister has attempted varying rates of increase in the sales tax on several commodities, the heaviest burden (25 to 50 per cent) falling on alcoholic beverages. The drinking classes do not deserve much sympathy, anyway, but the sales tax increases on items like spares and accessories of motor vehicles, tyres and tubes, confectionary items, machinery, cement and cotton yarn will have the effect of pushing up prices all round.

What is objectionable is the manner in which the overall deficit is allowed to go up to Rs. 204 crores. The main culprit in this regard is the State Electricity Board which is deep in the red. And, by way of a rescue operation, the Finance Minister has sought to transfer a hefty sum of Rs. 271 crores to the Board. Since Mr. Nedunchezhian has hinted that the Board will have to step up its tariff—Tamil Nadu electricity tariff is among the lowest in the country — soon, it may be presumed that there will not be any need for making full use of this provision for transfer to the Board. In other words, if the Tamil Nadu Electricity Board sets its house in order, the deficit shown in the state budget will get reduced to a manageable level. If this aspect is not explicitly mentioned in the budget, it may be because the Finance Minister wants to make out a strong case for massive assistance from the Centre.

Sombre Picture on Trade Front

THE export and import trends delineated in the *Economic Survey* make gloomy reading. The deficit in 1981-82, that is, the year that is closing this month, is estimated to be of the order of Rs. 5,500 crores, compared to Rs. 5,756 crores in 1980-81 and Rs. 2,563 crores in 1979-80. There has, no doubt, been a deceleration in the growth rate of imports to 6 per cent. At an estimated figure of Rs. 13,200 crores, imports in 1981-82 are higher than the 1980-81 imports which stood at Rs. 12,465 crores. Exports, on the other hand, are estimated to have gone up from Rs. 6,709 crores in 1980-81 to Rs. 7,700 crores in 1981-82. In value terms, exports will have risen by a respectable 14 per cent in 1981-82, against a meagre 4 per cent in 1980-81.

Our exports in 1980-81 were sluggish not because of low unit value realisation (this was true of only some items) but because of a decline in the quantity exported. This was particularly true in the case of tea. This trend appears to have been reversed in 1981-82 when most items registered substantial gains although some commodities, like textiles and spices, continued to remain sluggish. As for imports, the growth rate has softened to 6 per cent but the trade gap remains uncomfortably wide. The main cause of the widening trade deficit is the high cost of importing crude and petroleum products but other items like fertilisers, edible oils and steel too contributed their share to the widening gap. While edible oil imports are likely to go up further, the cost of fertiliser imports is expected to decline in view of (a) the fall in world prices and (b) increased domestic production. The same reasons explain the marginal decline in the oil import bill too in 1981-82. To some extent, the trade deficit can be covered by augmenting invisible earnings but in future, one cannot count too much on inward remittances.

By and large, higher rates of growth in agricultural and industrial production in 1981-82 and the prospect of further improvements in 1982-83 augur well for a sustained export effort. The budgets of the past two years contained a number of incentives for exports. The budget presented last week also contains measures aimed at promoting exports. To what extent our exporters will take advantage of these measures and of the facilities provided by the newly set up Exim Bank remains to be seen. A sustained export drive, by itself, is not enough to close the trade gap. Reduced dependence on imports, particularly in respect of items (like POL, edible oils, fertilisers and steel) is a goal worth striving for. This calls for measures aimed at stepping up domestic production.

Subscribe to :

SOUTHERN ECONOMIST

106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :
Rs. 50 per annum

(*Foreign :* 15 Dollars)
surface mail

Glass House Gossip

THE summer has almost arrived in Bangalore. I often wonder why summer starts earlier than usual in this garden city! Even in Delhi, where summer is quite severe, the days (and nights) are generally pleasant in the month of March. I can say the same thing about many other Indian cities.

The weather man may not be of much help in explaining this phenomenon (of early summer) in Bangalore. He is there only to chart the temperature and to warn the citizen of any impending storm or showers. Going by my own intuition, I can only say that since we had an early winter — I remember to have purchased a woollen pullover in November — we are also having an early summer.

So be it. I sit under a *punkha* most of the time and I do not have to complaint too much about the scorching sun outside. Not all Bangaloreans curse an early summer although most do. There is, for example, the seller of tender coconuts who has started making a roaring business. So does the cucumber seller and the seller of water melons. I generally do not patronise street vendors who bring their wares on push carts but the water melon slices are often so tempting that, one of these days, I may succumb to the desire to savour one. And, as usual, the bottlers of aerated drinks (Fanta, Limca, Campa Cola and so on) are helping the thirsty to wet their parched throats and, in the process, are adding to their bank balances. When it comes to capitalising on summer, the ice cream wallahs too do not lag behind.

With the power system in Karnataka going haywire, and KEB resorting to "load shedding" off and on, residents of air-conditioned houses understandably fret and fume. They cannot do anything more than that. After all, they are a microscopic minority in this "air-conditioned" city. As for the question as to why summers are getting warmer and winters are getting milder in Bangalore, I can only venture the guess that it may be due to indiscriminate felling of trees all over the place and the location of more and more factories here.

□ □ □

A very ambitious festival programme highlighting the myriad facets of Indian culture will be inaugurated at the Royal Festival Hall in London, on March 22. I have no doubt that it will make a terrific impact (I hope I am not using the wrong adjective) because two iron ladies have evinced interest — Mrs. Indira Gandhi here and Mrs. Margaret Thatcher there — in the festival. The moving spirit behind this praiseworthy venture, christened "Festival of India", is Lord Thomson, U.K. High Commissioner in New Delhi. He has spared no effort in putting together a large number of educative and entertaining programmes and exhibitions highlighting India's cultural heritage. The festival, which will be inaugurated by the Prime Ministers of the two great countries, will go on up to November. During this period — here, I am quoting Lord Thomson — "every major museum, gallery and concert hall in London will combine to project and reflect the brilliant complexity of India's achievement in culture and science as well as the diversity of day-to-day life and work in villages throughout the country".

These days, when one hears so much about the deteriorating relations between the two countries (virginity tests, race riots, growing protectionism and so on) it is good to know that not all Britons are engaged in India-baiting and that lots of people in that island are keen on knowing more about this poor country with a rich heritage. The secret of Lord Thomson's success in putting together this great show, of course with the co-operation of scores of well meaning Indians and Britons, is that he is a valued friend of India. The Thomsons are greatly liked in this country.

□ □ □

IT is only in Britain that they sack an editor if the circulation of a paper goes down. This is because the size of readership has a causal connection with the quality of the editorial leadership provided to the paper in question. I know of an instance, in India, where the circulation of a daily actually went up after a journalistic nonentity took over from a legendary editor. It explains lack of quality consciousness among our readers.

But not so in Britain. The management of the left-wing weekly, *New Statesman*, I am told, has decided to terminate the 4-year contract of its editor, Mr. Bruce Page, when the contract expires on March 31. I do not see why the Directors of the journal hold Mr. Page responsible for the fall in the paper's circulation when the fact remains that it has been falling since 1965, after reaching the peak of 93,000. It now hovers around 37,000 copies.

Not that the contents of *New Statesman* are everybody's cup of tea — Mr. Page's views are too radical to the average Briton's taste — but as a regular reader of the journal, I can say that under Mr. Page's stewardship, *New Statesman* has scaled now heights in investigative journalism. I doubt if Mr. Page's successor will retain the same zeal for muckraking. Frankly, I will be sorry to miss Mr. Page's (and Ms. Anna Coote's) lively pieces.

— Plebeian

The Press as a Whipping Boy

By **K. N. S.**

MRS. Indira Gandhi has thrust on the Indian press a new role — the role of the opposition. In a recent interview given to a foreign television, she is reported to have said that "the press *is* the opposition in India". This is neither wish-fulfilment nor a prophesy. It is a wild exaggeration. If it is a fact that the press *is* the opposition, then the opposition becomes redundant. We in India may never reach that stage.

The press, like every other institution in India, is a very imperfect creature. Its freedom is circumscribed by several in-built constraints. If it tells the whole truth, the press will be starved to death. The politicians do not want the truth to be told about them; the various lobbies want to highlight only those aspects which strengthen their position *vis a vis* others. The bribe-takers, the bribe-givers, the denizens of the vast under world of black money, the dacoits, the dowry-seekers — all view the press as an inconvenient institution which constitutes an ever-present threat to their survival.

A Paper Tiger

They all have exaggerated ideas about the capacity of the Indian press to hurt them. Little do they realise that the press in this country is a paper tiger. It depends on vested interests for its very existence. Stop the advertisements that are doled out to them and they are sure to die a slow death, due to starvation. In most cases, income from the sales of copies and from subscriptions does not even cover the cost of the paper on which newspapers and periodicals are printed. To a certain extent, it is true that advertisements released to a newspaper are governed by the circulation it commands. Even so, I doubt if fiercely independent newspapers have any chance of surviving in this country. To be successful, they have to follow the success formula.

I say all this to establish the simple truth that newspapers in India do not suffer from a death wish and that they are determined to survive even in a hostile environment. How does this situation (in which newspapers show a high degree of adaptibility) square with Mrs. Gandhi's statement that "the press *is* the opposition in India"? On the role of the press, in general, I can put down two strands of thought. One associates a healthy press with an anti-establishment bias. This view is shared by most journalists who think that it will not be good for newspapers to be too close to the establishment and that a healthy skepticism in dealing with news emanating from the Government is in order.

The other view is that there nothing wrong in being close to the establishment, which encompasses the Government and the elite sections who are close to the seat of power, so long as one has the capacity to judge issues objectively. There is much to be said in favour of this view since one sees some advantage in being close to the source of policy-related news. Those who enjoy the confidence of policy makers also enjoy the advantage of being the first to secure policy elucidations. Having said this, I must also point out that "kept" journalists often succumb to official favours. Those who rise above temptation get the best of both worlds: access to policy-related news and credibility that goes with objective presentation of facts.

Those who wish to perpetuate the anti-establishment tradition are probably flattered by Mrs. Gandhi's remark that "press *is* the opposition in India". Even so, they are likely to take it as an undeserved compliment. The fact remains that most Indian newspapers — nearly 80 per cent of them — express views which are either midly critical or uncritical of the Government's policies. Even the remaining 20 per cent go by the dictum: Facts are sacred but comment is free. This is exactly the opposite of what our Prime Minister complains about. How does this fact (of the majority of the newspapers remaining uncritical of the government) square with Mrs. Gandhi's assertion that the press leads the opposition?

Good Coverage

I have before me a bunch of the week's newspapers representing a wide spectrum of political views and I find that all of them, without exception, have given good coverage of the speeches and statements of the Ministers on their front pages. In any other country having an established journalistic tradition, most of these speeches would have either been completely cut out because there is nothing new in them or would have been shoved into an inside page. As for editorial comments, far from being unduly harsh on the policy makers, our newspapers revel in circumlocution which is shorthand for beating about the bush.

The Prime Minister either suffers from paranoia or is indulging in press bashing in the belief that offence is the best form of defence. I can understand a leader of the people attacking a press which is needlessly aggressive and troublesome. But I do not see why one should attack a press which, even by Indian standards, is docile and unenterprising. An explanation, based on human psychology, may be in order. A docile servant invites greater wrath from an aggressive master than an assertive servant who knows how to talk back; a submissive child invites more thrashings from a dominant mother than does a child which is prone to crying aloud. It would be futile to look for any rationale behind such outbursts. Throughout Mrs. Gandhi's rule, the press has remained an obliging whipping boy. Was it not Dr. Johnson who said: "The woman, the dog and the chestnut tree, the more you thrash them, the better they will be"? He could as well have added the press to the list of thrashable objects.

Population and Food Supply: Need to Find New Methods of Growing Crops

By **R. P. S. Rana** *

Thanks to the breakthrough in farm technology, countries which are reasonably endowed with good soil and climatic conditions do not have to face the Malthusian spectre of the food supply lagging behind population growth. Even so, one cannot take things for granted. As the author argues in this article, a crisis in future can be averted only if the growth of population is brought down on the one hand and new methods of growing food are adopted on the other.

FOOD is necessary for the existence of life. And passion between the sexes is a fact of life. From these two postulates or assumptions, we deduce the third: The power of population is indefinitely greater than the capacity of the earth to produce subsistence for them. If it becomes economical to synthesise food from inorganic materials then we may become independent of plants and the connection between top soil and civilisation will be broken. These questions suggest: "The proper use of land poses, not a technical nor an economic, but primarily a metaphysical problem. The problem obviously belongs to higher level of rational thinking to me, because between a half or two thirds of India's people do not get food of the right type and between 65 per cent to 75 per cent do not get even enough quantity to eat in order to sustain a healthy active life. Three-quarters of the health problems of the developing world could be prevented by better nutrition.[1]

The *per capita* gain in food production in 1976-78 over the base period 1969-71 was 9 per cent in the developed regions but a mere one per cent in the less-developed areas. The food production trend shows little prospect that the domestic output can improve the prevailing poor diets in the less-developed countries.[2] Table-1 shows the low level of *per capita* food consumption for the period 1974 in developing countries compared with developed countries and reflects their low level of economic growth and modernization.

TABLE-1
PER CAPITA DAILY FOOD SUPPLIES, 1974

	Less developed	developed
Calories	2,194	3,334
% of needs	95	130
protein (grams)	54	95

Source: Population and family planning programmes, The Population Council, New York p.3

The U. N. Food and Agricultural Organization (FAO) has estimated during 1980 that 29 countries, mostly in Africa, suffer from acute food shortages and nearly 50 crores of people of the world sleep without taking food at night. According to the Population Council, a country having an index below 100 in the food production figures indicates that it produced less food *per capita* in the three-year period 1975-77 than it did, on average during the years 1969-71 used as the base period. In the study conducted, of about 83 developing countries, data are available for 76. Of these, the index is below 100 in 40 and is 100 or above in 36. Some countries showed impressive recent gains in *per capita* food production. Syria showed a 46 per cent increase; Tunisia, 31 per cent; and the Democratic Republic of Korea, 24 per cent. On the other hand, in 5 of the 40 countries with a deteriorating *per capita* food output, the recent shrinkage exceeded 20 per cent of production a decade ago. The fear of an increasing dependence on imports or a deterioration in diets in the affected countries is well founded. In the developed countries, the *per capita* gains are not crucial because diets, on an average, are adequate. Neverthless, and inspite of the reduced acreage under production in many developed countries, recent *per capita* food production equaled or exceeded the 1969-71 average in 14 of the 16 countries. The range in the index for 1975-77 over the base in from 98 (Japan), 121 (Hungary) to 135 (Poland). Despite bumper crops, price increase in energy and problems of distribution, marketing, storage, and terms of trade are considerably dampening the optimism that had been generated a few years ago by the production of "miracle" rice, corn, and wheat.[3]

According to the *Economic Times* Research Bureau, net availability of foodgrains in India *per capita* per day is estimated at 485.8 gms. in 1979. This represents a 2 8 per cent increase over the 1978 level of 472.6 gms. Among foodgrains, cereals accounted for 440 2 gms. *per capita* per day and pulses 45 6 gms. in 1979 as against 427 8 gms.and 44 8 gms. respectively in 1978. But in India, *per capita* food production index has decreased from 98 in 1975-77 to 95.16 in 1980-81 on average during the years 1969-71, used as the base period.[4]

---

* Mr Rana is Lecturer, Economics Department, Jiwaji University, Gwalior (M. P.)

Higher wheat import during 1981 by India and the soaring grain demand from the developing countries, coupled with the damage of grain crops in the Soviet Union from summer drought, have pushed up import share of world grain trade to a historic high of 215 to 225 million tonnes, up by three to seven million tonnes from the August 1981 forecast. This is well above the 208 million tonnes registered last year, according to the U. N. Food and Agriculture Organisation's latest issue of "Food Outlook." The FAO reported that the damage to grain crop in the Soviet Union had increased cereal imports need of that country which was expected to rise between 36 to 40 million tonnes from about 34 million tonnes last year.

The third world's imports are estimated to rise by five to eight million tonnes, from 104 to 107 million tonnes last year. Higher demand is also expected from the drought-stricken Morocco and numerous other developing countries including Brazil, Egypt and South Korea. Imports from low income developing countries would also go up by three to seven million tonnes from the last year 44 to 48 million tonnes. However, the improved harvest prospects from grain exporters will be sufficient to meet the higher demand. In 1981, world cereal output is estimated at a record level of 1.48 to 1.535 billion tonnes against 1.436 billion tonnes last year. But the expected bumper crop is not likely to result in any major replenishment of world food reserves in 1981-82 due to increasing demand.[5]

The first "World Food Day" was observed on October 16, 1981 to promote solidarity among nations towards building up a sound world food security system to fight hunger and malnutrition. The decision to observe such a day annually was taken at the last conference of the Food and Agricultural Organisation of the U N While reviewing some of the current world food problems the FAO stated that the global cereal stocks were precariously low, and the world could not afford any major crop failure or even any natural disaster or political upheavels that would reduce yields significantly in the coming year. It underscored the need for building up adequate reserves to help avoid famines.[6]

The U.S. Department of Agricultural has, in its report on the country's food situation, observed that although India, has made remarkable progress in agriculture over the past decade, its birth rate once again appears to be exceeding its ability to produce sufficient food. Total Indian grains and pulses production in 1980 81 has been estimated at about 129.87 million tonnes or 5 million tonnes less than the targetted output for the year. According to the final estimates released by the union Agriculture Ministry, the 1980-81 production is lower by 1.5 per cent as compared to the previous record output in 1978-79. However, if one takes into account the annual rate of growth of population, the country will face a net production shortfall of about 6 9 million tonnes during the current financial year. The U S. Department of Agriculture suggests that overall production must increase by more than 2.5 million tonnes per year in order to maintain the minimal consumption levels.

Add to this staggering magnitude of malnutrition and actual hunger, the accelerating growth of population which even on a conservative assumption is expected to reach 1250 million by 2007 A.D. and one has the colossal dimension of India's food problem, Prima Facie, production of food grains has by and large, kept pace with population growth. The grain output rose from 51 million tonnes in 1948 to 129.87 million tonnes in 1980 81 or by 154.64 per cent. During the same period the population grew from an estimated 361 million to say 680.35 million or by 88.46 per cent,[7] The annual growth rate of grain production works out to be 3 per cent.

The recommended target of the report of 1959, provide for a net daily consumption per person of 15 ounces of cereals and 3 ounces of pulses, this compared with the actual consumption in 1956-57 of 13.3 ounces of cereals and 2 4 ounces of pulses.[8] On the same basis what should be our requirements in 2007 A D. for an estimated population of 1250 million and another three decade later, in 2038 A.D., when the total will rise to say 2500 million ? The simple calculation gives us 286.5 and 573 million tonnes respectively, that is, without allowing for any increase in *per capita* consumption.

The problem of population growth is a global problem because high birth rates are still the norm in developing countries, those countries in which death rates have fallen substantially have a rate of natural increase (almost synonymous with growth rate where migration is negligible) that often excesses 2.5 per cent year. At that rate, a population doubles in 28 years. In marked contrast, natural increase in the developed countries is often under 1 0 per cent per year, at which rate population doubles in 69 years. The Table shows the rates of natural increase for the 83 selected developing and 16 developed countries.

TABLE - 2
RATES OF NATURAL
INCREASE, 1978

Annual % increase	Among 83 LDCs	Among 16 developed countries
Less than ·51	0	7
.51 to 1.0	2	9
1.1 to 1.5	4	0
1.6 to 2.0	8	0
2.1 to 2.5	32	0
2.6 to 3.0	24	0
3.1 to 3.5	12	0
3.6 to 4.0	1	0
Total	83	16

Source : Population and Family Programmes New York 1980, p.83

Further study reveals that the mortality differential between the two categories of countries indicates there is much leeway for additional declines in death rates, but further success in controlling mortality is seen as more contingent upon social and economic progress among rural people than upon a general build up in the medical infrastructure. Growing at over 2 per cent per year, population in the developing regions is increasing at a rate almost three and onehalf times that of the developed regions. Consequently, the people in the poorer lands will increase to four times of the developed worlds population by the year 2000 from two-third in 1950.

If we ask ourselves a different set of questions, however inconvenient they may be, will the targeted production be adequate to support our population? At what rate should it increase simply to keep pace with the mounting number of mouths to be fed? How much more will be needed to provide to the masses of people at least a moderately higher level of nutrition which at present falls deplorably short of the minimum? Should we aim at producing just what we need to feed our population and continue to struggle with *ad hoc* measures to bridge the gaps we are constantly plagued with? Or, should we rebuild our agriculture on a modern, scientific basis and put our soils, waters, profuse sunshine, and super-abundant labour force to work in order to extract the maximum possible wealth out of these physical resources?

Our analysis shows that we should increase food production to keep pace with the population growth and in the light of the latest inventions, we should try to find out other feeding resources which should be independent of soil.

First let us analyse the feeding problem by growing plants in air in the coming decades. Thanks to "Aeroponics, a new Israeli agricultural system that eliminates the need for conventional soil or water methods because the plants are growing in the air in Israel. Instead of being cultivated in rows of ploughed fields, the plants grow in sealed throughs where their exposed roots received nutrients enriched mist from a computer-controlled spray system. Lift the plastic lid of one of the empty tubes and the plants come off right along with it, their bushy roots dangling freely. Aeroponics use less water, less fertilizer and less energy and experimental yields are 34 to 200 per cent higher than those of soil farming.

Seven years ago, Keshet's Partner, Dr. Isaac Nir, got the idea to grow plants in the air from hydroponics the system that grows plants in enriched water. The most expensive process in hydroponics is infusing the water with Oxygen the plants need. And, to top off the promising prospects of aeroponics, the taste of aeroponic vegetables can be controlled by regulating the mineral content of the liquid nutrient. In growing plants in air, initial costs are still a problem. A 90 square foot unit with computer console and special fogging system sells for $ 500. But 15 Israeli farmers are already using the system, and Amiram Keshet, Director of Adi Ltd. has sold three sets of modular tubs to American companies in Connecticut, North Carolina and Florida. Keshet Proposes that aeroponics can be used in the United states to grow saplings quickly for reforestation programmes. Takings tree cuttings and sprouting them in air knocks a year off the time it normally takes in American tree nurseries, he claims.[9] Implementing such system in India costs $ 242,000 or more than Rs. 19.36 lakhs per acre or nearly Rs. 1 crore for two hectares. In any case, the question needs to be asked whether India can afford such heavy investment in growing plants in air with a view to feed its growing population. At present, the external debt on Government Account as on July 31, 1981 stood Rs. 14,374.03 crores and total liabilities of government during 1981-82 is estimated at Rs. 67,788 crores. Analysing India's present economic situation, we are more confident that it is impossible for India to develop such technique in the absence of heavy financial resources because in converting 16 crore hectare land into such system, India needs an investment of Rs. 8,00,00,000 crores. Consequently, feeding probability from growing plants in air seems gloomy.

If the food supply becomes very inadequate over several years, so that mass starvation and death are likely to result in the short run, more agricultural inputs would be used for producing more food. In the long run, however, this diversion of land maintenance investment will result in a depletion of the soil fertility and hence a decrease of the food output generated by the agricultural sector.

Why should we assume that there is any necessary limit to the yield increase attainable from adding capital inputs to the agricultural production function? From a biological point of view, there does seem to be an upper limit to the efficiency with which the photosynthetic process can fix incoming solar energy into vegetable matter edible to man. From an economic point of view, the diminishing marginal returns to agricultural inputs are already evident. In extreme cases, one may even observe a negative marginal return to more use of fertilizer. Very high inputs of fertliizer may cause the head of the grain to grow so large that the stalk will break before harvesting or the concentration of salts in the soil may become sufficient to damage the plants. Both the processes will result in lower yields. The achievement of plant geneticists over the last 16 years in what is called the green revolution, has been to develop new seed varieties that produce stalks capable of supporting heavy grain-heads, which are thus more responsive to fertilizers than the traditional varieties, But continuous doses of fertilizers have to generate salt in the soil.

There are two very important questions; one is the regeneration of land fertility and second is how to feed increasing population? When land left fallow, it will recover the lost fertility through the action of natural processes. The natural growth of grass and new forests on the soil will ultimately restore its content of nutrients, organic material, and useful micro-organisms. This enhancement of the normal land fertility regeneration process is routinely undertaken by any farmer to prevent his land from losing its fertility. But it is never possible to leave land fallow in the present circumstances as our population is growing at the rate 2 2 per cent per annum and in the world more than 50 crores people sleep at night without food. Moreover, population (natural) increase rate per 1,000 per year in Africa, East Asia, Balance of Asia, Oceania, Latin America, North America, Europe and USSR during 1975-80 have been observed 28.9, 13.1, 24.8, 12.6, 27.0, 6.3, 3.9 and 9.4 respectively[10] and fertility rate per women in the world, Africa, Asia, North America, Latin America, Europe, USSR, Oceania and India is 3.8, 6.4, 3.9, 1.8, 4.5, 2.0, 2.4, 2.8 and 5.3 respectively.[11] It is obvious from these fertility rates that the world population will be more than 6 billion in 2,000 A.D. Before tracing the solution of soil regeneration, it is appropriate to find out the maximum target of population for India. At present, TABLE - 3

MAXIMUM POPULATION FOR INDIA UPTO 2035 A.D.

March 31	1982	1982-85	1985-90	1990-95	1995-2000	2000-05	2005-2035
Growth rate (per cent)	2.0	2.0	1.5	1.0	0.5	8.0	-1
Population (in crores)	69.85	74.13	79.80	83.85	85.90	85.90	60

Growth 0.0 per cent indicates two children per family.

TABLE - 4

PER CAPITA AVAILABILITY OF AGRICULTURAL LAND AND FOOD REQUIREMENTS OF INDIA

March 31	1982	1982-85	1985-90	1990-95	1995-2000	2000-05
Per capita availability of Agricultural land (Biswa)[1]	18.11	17.6	15.85	15.08	14.72	14.72
Per capita food grains at present level of out put in kg.[2]	185.89	180.66	162.70	154.79	151.10	151.10
Requirement of food grains [3] (millions-tonnes)	160.03 (229.11)	169.83 (229.09)	182.82 (229.09)	192.10 (229.09)	196.80 (229.10)	196.80 (229.10)
Growth rate of Agricultural Production (%)[4]		9.3	1.5	1.0	0.5	0.0
Yield per hectare (in kg.)	1000.18	1061.43	1142.62	1200.62	1230	1230
Per hectare increase % over the preceding period		6.12	7.65	5.07	2.45	0.0

(Growth rate 0 per cent indicates period of soil regeneration.)

1 - 1 Hectare = 79 Biswa.

2 - Per capita availability of food grains in kg. from the available per capita agricultural land for different periods at present level of production.

3 - Requirement of food grain based on the estimation of crisis report 1959.

4 - Growth rates differ period to period.

the *per capita* availability of cultivable land is nearly 18.11 Biswa, out of which nearly 6 Biswa is irrigated. The present situation indicates that it is difficult for the Government to control the population growth. Therefore, one may suggest the maximum target of population for India as shown in Table-3.

The population of our towns, cities and villages is moving increasingly beyond their boundaries, and settling usually in the neighbouring town or city. This can be observed in and around Delhi, Meerut, Gwalior, Calcutta, and Bombay, where every year a more or less wide "ring" can be traced on the urban map. This increasing population poses three problems of housing, work and everyday living but we concentrate on everyday living. We must therefore direct all our energies to control the population growth. When we talk of controling the population growth, we include all manner of aspects associated with feeding problem, distribution of land, soil regeneration, technologies for the development of land productivity. The suggested 196.80 million tonnes output of foodgrains for our 85.90 crores people by 2000-2005 could be achieved because the targetted production of 169.83 million tonnes of foodgrains in 1985 (from the current level of production 129.87 million tonnes) will consume all cheap existing resources and rest of the existing water resources will get exhausted in securing 182.82 million tonnes of production.

The production of 192.10 and 196.80 million tonnes will depend on inventions related to agriculture. If in the absence of appropriate technology, India fails to achieve the estimated production then the period from 1995 would be a period of starvation for our people. Data on world production of wheat, rice, maize and barley show that the yield from these so-called large grain species has increased by about 50 per cent in the past 15 years. In the case of wheat, which yielded 260 million tonnes in 1962, the 400 million tonnes in 1976, the 451.4 million tonnes in 1978 and 455 million tonnes mark was passed in 1981. While considering this almost continuous rise, it is important to remember that the cultivated area has remained about the same. In Western Europe, things are much the same as far as wheat is concerned, and our knowledge of changes in yield goes back much further. In the years around 1775 about 700 kg. was harvested per hectare, whilst around 1850 this was 1,600 kg. an increase due mainly to growing clover with the crop rotation system. From 1885 onwards, the yield (per hectare) curve rises sharply, having a value of 3,000 between 1920 and 1930 and reaching 4,550 kg. in 1975 and under the best nutritional and weather conditions up to 5,800 kg. per hectare.[12] If such miracles are achieved in India, the production of foodgrains will increase to 800 million tonnes but India being a warm climate country, we ignore such possibilities. Therefore the problem of soil regeneration and limits to population become a necessary part of planning.

By fixing the target of maximum population for different periods, it becomes feasible to find out the food requirement and probability of soil regeneration. If, at present level, Y is the total output of food grains and P be the total population. A more common measure 6 of human annual nutritional requirement is in terms of energy—kilo calories per person for the whole year—with a minimum requirement for normal health of about 2200 to 2400 *per capita* — per day for the whole year such as ($y \div p = 6$) and at this level we define, "Land Fertility" as the inherent capability of the agricultural land to produce crops with the use of traditional inputs only cow, buffaloes and other animals manure, natural irrigation, animal power.

This level should be distinguished from the land yield, which we define as the output one can achieve through the use of all modern agricultural inputs. In a society using modern agricultural inputs, land yield is equal to land fertility multiplied by a number larger than one. The land fertility is a function of the biological and physical characteristics of the soil. It is very sensitive to change in any of these characteristics and is easily impaired even by widely used procedures such as fertilizing, irrigation and the use of farm machinery. In the long run, these three process can lead to a reduction of micro organisms in the soil, to salinization, and to soil compaction respectively all of which we assumed to have unfavourable impacts on inherent land fertility. In this situation, if the food grain is increasing with growth rate Gy and population with growth rate Gp, we should allow the growth of population upto time t such as

$$Y\left(1+\frac{Gy}{100}\right)^{t} \div P\left(1+\frac{Gp}{100}\right)^{t} = 6,$$

and one-third land should remain fallow.[13] Some of this total food grain out put is fed to animals before the animals are consumed by man. Figures in Brackets of Table 4 indicates 229 kg. *per capita* food grains availability for the whole year and surplus of it goes to the animals. The requirement have been matched with the target of maximum population shown in Table-3.

It is well known that yields from arable land can be increased to some extent by the use of modern agricultural inputs. It is also known that modern inputs such as fertilizers are not free from undesirable side effects when they are used intensively over long periods of time. The long-term viability of the very intensive use of modern agricultural inputs is being questioned. It is argued that same inputs that increase yield in the short run may in the long run depress the intrinsic ability of the soil to support vegetation. The mechanisms by which this may happen include salinization of the soil by irrigation, the destruction of nitrogen fixing bacteria by fertilizers, the evolution of pesticide resistant insects, the compaction of the soil by heavy machinery, and the poisoning of the soil's microorganisms by persistent pollutants.

On the other hand, proponents of modern agricultural inputs argue that no such damage will occur if the inputs are used in the proper manner, that is, in accordance with present knowledge about soil and their cultivation. Present land yield data cannot be used to resolve the argument that land productivity will remain as it is now but the use of fertilizers causes short term artificial enrichment and possible long term reduction of soil fertility.

More inputs in agriculture is primarily determined by the total agricultural investment. This is increased when the available food *per capita* is below the *per capita* demand and decreased when the available food *per capita* is above the *per capita* demand and latter is that point where soil regeneration is possible. For this pressure of population should be less. The best data on the time necessary for the natural restoration of land fertility comes from tropical areas. Such land fertility regeneration regularly occurs in the traditional slash and burn agricultural methods in the tropics. Land is cleared by burning, which release the nutrients formerly stored in the vegetation. Crops are then grown in the soil enriched by these nutrients. Free soil nutrients however, are rapidly lost through leaching and to a lesser extent taken up by crops, before long the land fertility is so much reduced that cultivation must move on to a newly cleared plot of land. The deplated land is allowed to return to natural forest, requiring a fallow of 10 to 20 years, before the land is again burned and new crops harvested.[14]

The land fertility regeneration time in the tropical jungle is about 15 years. The time in colder climates must be some what longer, since ground cover develops and humus releases nutrients more slowly. But with the present food supply and its demand in India, it quite impossible to allow land fallow to grow forest for a period of 15 years or 20 years. Under current agricultural practices the natural regeneration process can be significantly enhanced by human efforts through the allocation of agricultural resources to land maintenance. The example of this type of aid to natural regeneration are the restoration of nutrient levels through adding humus, draining salty areas planting pulses, indigo, kidney bean etc. by rotation and reducing the leaching process by mechanical means or soil control. History seems to indicate that farmers actually do care for the fertility of their land to the extent that they do not let the land fertility degrade significantly. The consequences of fertilizer use are known to farmers and land fertility seems to have been relatively constant in India because if once fertilizers have been used, the crops are good and if unfortunately at any time it has not been used due to financial draw backs or non-availability of it the production decreases several time below the constant level achieved in the preceding years of its use.

If X is the annual output of food grains per hectare and an acting force to degrade fertility are exactly balanced by the forces L (labour) and K (capital) acting to regenerate fertility such that

$$X = f\left(\sum_{1=1}^{n} Li,\ \sum_{1=1}^{n} Ki\right),$$

then there will be no problem of soil regeneration. We measure the manure (Gobar Khad) equivalent the amount of fooder feeded to buffaloes, cows etc., it has been included in

$\sum_{1-1}^{n} Ki$ This conclusion is based on the assumption that the organic content of soil is a good indicator of land fertility degrades at the same rate as organic matter disappears.

The land fertility will remain constant or viable in India only if the forces acting to degrade fertility are exactly balanced by the forces acting to regenerate fertility. Such a balance or equilibrium can occur at different levels of land fertility and at different regeneration and degration rates, but will exist as long as the two rates are equal. It is possible to have a stable land fertility if

$$X - f\left(\sum_{1-1}^{n} Li,\ \sum_{1-1}^{n} Ki\right),$$

is maintained through out the agricultural production process such as quantity of fertilizer should not exceed the limits more than 200 kg. per hectare only for one year and for the next year process needs the rotation of crops such as planting pulses, indigo cotton etc and there is no restriction on manure (cows and buffaloes).

This process will provide food for future generations if and only if we are capable of controlling population growth by keeping the birth rate equal to the death rate. It is not the potential danger of atomic conflicts which we see as the most dangerous threat to humanity's chances for survival. The real threat to India's survival is from the inequality of feeding conditions and life opportunities among the citizens.

REFERENCES

1. Invisible woman, The *Indian Express* July 14, 1980, p. 6.

2. Population and Family Planning Programmes 10th edition New York, 1980 p. 82.

3. Ibid p. 85.

4. Ibid p-10 and population during 1981-82 and food production in 1981.

5. World Grain Trade, Economic Trends, September 16, 1981, p. 20.

6. Ibid, October 16, 1981, p. 19.

7. Rana R.P.S. "Socio - Economic Impact of Cropping Pattern in Madhya Pradesh, M.P. *Economic Journal*, 1980, p-90.

8 Sudhir Sen, Turning the Tide, Machmillan Company 1978, p. 76.

9. Growing Plants in Air, "*Yojana*" October 1-15, 1981, p. 38.

10. Population and Family Planning Programmes, 10th Edition, New York, Table-1, p. 2.

11. *Indian Express*, "The Invisible Woman" July 14, 1980, p. 6.

12. Prof. J. S. Cologne, "Plant Breeding and Plant Production the Present Research Situation, Universities, A German Review, Vol. 20, No. 3 1978, p. 205.

13. Rana, R. P. S., M. P. *Economic Journal* 1980, Vol. 6, No. 1, p. 91.

14. Dynamics of Growth in finite world, Agriculture sector, J. Randers and E. K. O. Zahn, Wright-Allen Press, Mc. Cambridge, p. 328.

TAX DEDUCTION AT SOURCE IS OBLIGATORY

IF YOU are responsible for paying any

○ **SALARIES**

○ **INTEREST exceeding Rs. 1,000/- by credit or otherwise (other than Interest on Securities)**

○ **AMOUNT TO A CONTRACTOR OR SUBCONTRACTOR by credit or otherwise where the value of the contract exceeds Rs. 5,000/-.**

○ **WINNINGS exceeding Rs. 1 000/- FROM LOTTERIES OR CROSSWORD PUZZLESS, OR FROM HORSE RACING in excess of Rs. 2,500/-.**

○ **OTHER SUM TO A NON-RESIDENT (other than Interest on Securities or Dividends).**

You are liable :

- to deduct tax at the appropriate rate therefrom,
- deposit the tax deducted to the credit of Government within the time allowed.
- file the appropriate statement with your I.T.O., indicating the deduction made.

Meet your liability well in time
DEFAULT ATTRACTS PENALTY

For further details and guidance approach your I.T.O. or the P.R O. in the office of the Commissioner of Income-tax.

For attention of recipients

If you are in receipt of any income from the sources mentioned above and your total income justifies deduction of tax thereform at a lower or NIL rate, you can approach your I.T.O. for a certificate showing such lower rate applicable to you and the person paying the income will then deduct tax only at that rate.

PAY TAXES RIGHT - BUILD NATION'S MIGHT

DIRECTOR OF INSPECTION
(Research, Statistics & Public Relations)
INCOME-TAX DEPARTMENT
NEW DELHI - 110 001.

davp 81/332

Planning for Water Resources in India

By **V. C. Sinha** *

Water is a very important resource of nature. It is needed both for irrigating crops and for quenching the thirst of human beings and animals. Being a scarce resource, its conservation and optimum use need to planned in a rational manner. In this article, the author takes a look at the dimensions of water resources in India and suggests how their use can be maximised through full exploitation of the irrigation potential and better land management.

WATER is essential for the survival and progress of mankind. The *per capita* consumption of water is a vital index of prosperity of a country. The demand for water for agriculture, industry and human consumption continues to increase very rapidly. An assured water supply is an essential pre-requisite for modern agriculture and industrial growth. The single largest withdrawal user of water resources in India is agriculture and irrigation. Another very important field in the utilization of water is the development of hydro-power.

The problem of the supply of drinking water is important for any country. In India, this assumes special significance because of its vast rural population flung-apart in isolated and scattered villages numbering nearly 6 lakhs. Most of the villages used to depend on wells for their water needs. Besides, with the rapid growth in industries all over the country, the availability of adequate water supplies for industries has been assuming more and more importance. In addition to the main uses dealt with above, water has been exploited for other purposes also such as pisciculture, pollution control, wildlife preservation, navigation, mining etc. Taking all these uses, the total water utilized at present is about 330 billion cubic meters. The principle water resources are the surface water and the ground water resources. There have been different estimates of surface water resources of the country has shown in Table.

Thus, Dr. A. N. Khosla has estimated the total annual flow in all the rivers systems in India (i.e., the total surface water resources) as 167 23 million hectares meters, whereas the Central Water Commission (CWC) gives a figure of 188.19 million hectares meters. Similarly, knowledge of ground water resources is also limited. Raghna Rao and his associates (1969) have attempted to assess the ground water resources on the basis of rainfall infiltration and contributions from seepage from canals, tanks etc. They made a very rough assessment of net annual recharge to ground water which is put at 26.7 million hectare meters.

Due to limitation of various kinds, it may not be possible to harness the entire resources. The Irrigation Commission, 1972, maintained that the utilisable surface water resources of India are 66.6 million hectare meters, i e., about a third of the high estimate of total resources, because suitable sites for dam and diversion projects are not available in all cases. Utilisable ground water, on the other hand, is about 75 per cent of the total resources. i e., 20 4 million hectare meters of water from surface and subsurface sources is available for long term development in India. Despite this achievement, water continue to be the most intractable problem of the Indian economy. This can be seen from the fact that droughts ravage rural India with the same frequency and ferocity as was witnessed during the British days, with the difference that deaths of human beings from mass starvation do not occur now as in the colonial era. But the loss of cattle probably continues to be as colossal as before. The fact that out of nearly 6 lakhs villages in India, as many as 1.52 lakh villages have no-drinking water facility is a grim indication of the neglect of water by Indian society.

	Million Hectares Meters
(i) First Irrigation Commission (1903)	144.32
(ii) Khosla Estimate (1949)	167.23
(iii) Central Water and Power Commission Estimate (1960)	188.19

Source: Abhijit & Lahiri: Planning water use for 200 A.D. in Commerce Annual November 1975, p. 19.

The major problems of rural water supply programmes are those of finance, suitable personnel and adequate institutional facilities, of which the most important ones are: (i) low level of income in villagers, (ii) ignorance of the villagers, (iii) lack of health education, (iv) lack of trained manpower and institutional weaknesses at all levels, (v) absence of government rural water policies: (vi) failure to collect adequate charges from water users; (vii) overlapping and undefined responsibilities of numerous agencies, (viii) frequent interruptions in water supply due to poor operations, maintenance procedures and lack of spare parts. The broad features of a water policy which might suit our circumstance would appear to somewhat as follows:

1. While setting priorities for water, the first priority should be to provide drinking water for human beings and cattle. One fourth of the central and state government's expenditure of health should be ear-marked for drinking water projects, because provision of potable drinking water is the most effective method of prevention of water-borne diseases which play havoc in our rural areas. The government should have contingency plans ready on the shelf as also a skeleton staff and equipment so that whenever there is drought, a full fledged mechinery can be put into action

---

* Dr. V. C. Sinha is Head, Department of Business Economics, A.P.S. University, Rewa (M.P.).

immediately. The objective should be to provide atleast some minimum quantity of water almost at the doorsteps of every family throughout the period of drought.

2. For the next 10 years, there should be a ban on undertaking gigantic irrigation works. All financial and organizational resources of irrigation departments should be committed to creating minor irrigation projects for better utilization of groundwater resources rather than storage in huge resources.

3. Since water is fast becoming a scarce resource in India, we should no longer be thinking solely in terms of how much we require for one purpose or the other, but rather in terms of how best we can make the most efficient and optimum use of what little water we are still left with. Water must be used with the utmost economy, whether for agriculture, industrial or domestic purposes. It must also be protected against pollution by agricultural, industrial or municipal wastes. In developed countries, which have only meagre water resources at their disposal, this crisis has already taken place. But in India, the problem of pollution has not yet taken such a serious proportion. We still have some time to act, and the sooner we effectively deal with this the easier it will be for the country to ward off the calamity and put the available water to the best possible uses. Measures to minimise wastage of water, e.g., by adoption of sprinkler irrigation and trickler irrigation and maximisation of the benefits for irrigation, have to be thought of.

4. Conservation of water to the maximum possible extent must obviously be worked for. Since water is best and most conveniently conserved in the form of ground water, high priority must be given to the replenishment of ground water resources by natural as well as artificial measures. Ground—water planning should involve (i) large scale systematic hydrogeological, hydrological and geophysical surveys and water basins, (ii) techno-economic feasibility studies on conjunctive use of surface and groundwater to meet the agricultural and industrial needs of the area, (iii) priorities for ground water exploitation in drought-prone areas should be so planned that at least drinking water is available during the drought periods. When rainfall has been scantly, (iv) detailed geophysical studies in regions indicating high salinity to delineate the areas of saline water and to explore the possibilities of fresh water aquifers either above or below the saline water zones. Such studies elsewhere in the world have helped provide fresh water for drinking and agriculture purposes, limiting the use of saline waters for industrial purposes; (v) studies in land utilization pattern and land management practices which influence the rate of infiltration and groundwater re-change to a great extent; and (vi) canal irrigated areas where water-logging and salinity have become serious problems, ground-water development programmes in such areas will help to lower down the water table and reclaim aerable land.

5. Systematic collection and analysis of data is one of the prerequisites of any planning process. The first necessary step is to collect all the surface and groundwater data and analyse them basin-wise. Estimation of ground water resources is difficult. For accurate assessment of ground water resources, detailed information regarding the water bearing formations underground should be available. Water budget studies should then be made for different river basins and acquifers associated with them to find the ground water potential. The deficiencies in data should be made up by additional investigations to present an adequate basin-wise picture for planning. Research should be done on weather modification by could seeding, desalination and reduction of evaporation losses and thus increase our water supply position.

6. At present, there is no single agency responsible for the overall development of water resources for different purposes such as irrigation, power, drinking water supply, industrial uses etc. Water is a state subject and the clash of interests and inter-state disputes create problems in planning, exploitation and management of the water resources. Conjunctive use of surface and underground water, understanding of the behaviour of the rivers to exploit them and reduce their flood damage requires a well coordinated any centralized planning.

The Central Government must treat water resources as a national asset and assume full responsibility for the assessment and development of water resources. A single agency like the Central Water Commission which will have the overall responsibility for the optimum and most beneficial development of the water resources for various uses should be established to implement a water policy based on following priorities: Water should be available first for human beings, then for cattle, then for farms, then for power and lastly for industry. State Water Commission and similar District Water boards should be set up to implement this policy.

7. Since water is a scarce commodity the demand is seasonal and there are conflicts in its proper use at the field level. It is, therefore, most desirable to have some local control over the management and use of water. It is only when such a system is developed that there will be maximum production from available water. It has, therefore, been suggested that water co-operatives should be set up, as is the practice in the USA, which can distribute water and fix irrigation rotations. It is high-time for doing something positive in this direction of local control for water conservation and its efficient utilization at the gross roots.

8. Under utilization of irrigation potential is yet another area which needs closes scrutiny. The period of under-utilization may be reduced if liberal credit facilities and know-how are supplied to the farmers well in advance of creation of the potential.

9. The financial outlays for programmes of development of water resources have considerably increased over the five year plan periods. It is estimated that over Rs. 2,032 crores will be invested in assessment and exploitation of groundwater resources during the Sixth Five Year Plan period. It is essential to ensure that these investments provide optimum returns and the programmes are carried out on sound scientific and technological considerations in

conformity with the long-term basinwise plans.

To conclude, water resources development is crucial for India, but in view of the rapid population growth, colonial background of institutions and approach and current inadequate technological capability, the prospects are bleak. However, this need not be so if immediate and dynamic action is taken. What is needed is a revolution in our approach, technology, institutions and organizations. What the country lacks are integrated plans at national level and their timely execution, a decision at the highest level to treat water as a national asset. All the disciplines concerned with good land and water management should be brought together under new integrated departments of land and water both at the Centre and in the States. One may hope that the politicians, planners and administrators realise the necessity of these measures and take steps in the direction of their early implementation.

Water planning and management have special significance for the people of India. The reasons are (i) the rainfall on which the country continues to depend is erratic and unpredictable, (ii) we have to meet the challenge of a growing population and limited resources and cultivable land (iii) our cities and industries are growing so rapidly that the management of water resources calls for immediate attention and considerable expenditure, and (iv) the problem of villages which do not have a sure water supply need immediate attention. India's water resources represent a priceless natural asset which needs to be harnessed with great care and thought in future.

Economic Survey Sees Upturn in Production

The pre-budget *Economic Survey* for 1981-82, presented to parliament last week, shows that the economic situation has shown a distinct improvement during the year. The performance of infrastructure has improved substantially and industrial production is likely to increase by about 8 per cent. In agriculture, a growth rate of 3 per cent is expected. Foodgrains output of 134 million tonnes will exceed the earlier record level of 1978-79. The Gross National Product (GNP) is likely to increase by about 4.5 per cent on top of 7.5 per cent growth during 1980 81. The annual rate of inflation, as measured by the wholesale price index, came down to 5.4 per cent as on January 16, 1982 as against 16.2 per cent on January 17, 1981.

The *Survey* points out that exports are likely to grow by 12-13 per cent in terms of value during 1981-82. The growth in imports will be much lower. Thus the trade deficit during the year is likely to be somewhat lower than that of 1980-81. Net receipts from invisibles are likely to be lower this year. But aid utilisation has shown improvement. With a GNP growth of 7.5 per cent in 1980-81 and an expected increase of 4.5 per cent in 1981-82, the growth in real GNP in the first two years of the Sixth Plan period, will significantly exceed the target growth rate of 5.2 per cent per annum during the plan period.

In 1981-82, the projected public investment outlays are likely to be met, and the outlook for private investment is good. Therefore, the rate of capital formation, which was 24.2 per cent in 1980-81, should remain high in 1981-82 also. The domestic savings rate during the year is also expected to remain high (it was 22.2 per cent in 1980-81).

Agricultural production during 1981-82 is expected to increase by over 3 per cent on top of the 15.4 per cent increase in 1980-81 and against a decline of 15.5 per cent in 1979-80. In the current year, foodgrains production is expected to reach a record level of 134 million tonnes. Sugarcane production is also expected to register an all time high. The prospects of groundnut crop are not equally bright but those of cotton, jute and mesta are quite encouraging.

The performance of the infrastructure sectors during 1981-82 was highly satisfactory. The coal production target of 121 million tonnes is expected to be exceeded. The supply of coal to power plants and other key industries has improved substantially. Power generation during 1981-82 is expected to increase by about 10 per cent on top of 5.7 per cent increase in 1980-81, mainly because of notable growth in thermal generation. The Railways are likely to exceed the target of 215 million tonnes of revenue earning traffic during 1981-82.

Industrial production is expected to increase by about 8 per cent during 1981-82 as against 4 per cent in 1980-81 and a decline of 1.4 per cent in 1979-80. The improvement has been widespread. Key industries such as steel, crude oil and petroleum products, cement, aluminium, nitrogenous fertilizer, newsprint, diesel engines, transport equipment, sugar, and vanaspati, are expected to touch new peak levels of production.

Ensure Proper
Tax Deduction
from
Salaries

The Income-tax Act requires every person responsible for payment of salary to deduct tax at source at the prescribed rates and deposit the same to the credit of the Central Government immediately in the case of Government employees and within seven days in the case of other employees.

Default of the Employer Attracts:

- **(i) Recovery of the entire amount of tax from him;**
- **(ii) Levy of interest and penalty; and also**
- **(iii) Prosecution which may lead to rigorous imprisonment and also fine.**

Avoid Penal Action

ENSURE that the tax deductible on salary has been correctly deducted and deposited into Government account within the time.

ADJUST short deduction, if any, out of salary payments made in the month of February/March, 1982.

Director of Inspection
(Research, Statistics, & Public Relations)
INCOME-TAX DEPARTMENT
NEW DELHI-110 001

davp 81/326

Agricultural Mechanisation: Is it a Boon or a Curse to Our Farmers?

By **K. Parameshwara Rao** *

Although Indian Agriculture is passing through a gradual technological change (e. g. use of modern inputs and introduction of high-yielding varieties) mechanisation has not progressed far enough to make an impact, one way or another. In this brief article, the author argues that mechanisation (e g. use of tractors) does not necessarily displace human labour. The point is debatable.

IT is a well established fact that the agricultural sector has a vital role in the process of economic development. India being an agrarian economy, with more than 70 per cent of its population depending either directly or indirectly on agricultural sector for their living, its importance cannot be under-estimated. Hence development of agriculture has become an integral part of planning in India. Transformation of agriculture has become very important and this requires continuous efforts to increase productivity. In recent years, Indian agriculture has been passing through a phase of technological breakthrough. Mechanisation of agriculture is considered as one of the measures which can step up farm productivity significantly.

Farm mechanisation means application of mechanical power to perform agricultural operations and to increase farm production and to raise the standard of living of the people working in agriculture. Mechanisation may be either partial or complete. It is partial when only a part of the farm work is done by machine. It is complete when animal or human labour is completely displaced by the power operated machines. In Western countries, mechanisation of agriculture is more or less complete. This has become necessary because of the shortage and high cost of farm labour in those countries. But in a country like India, where abundant supply of human and animal power is available; we cannot but be selective in our approach to farm mechanisation. We must use mechines only in certain selected operations.

Farm mechanisation as against traditional pattern of farming has been advocated as an essential step to increase agricultural production through extensive cultivation. Tractors make it possible to cultivate sloping and heavy land that would otherwise remain pastures. Tractor makes it feasible to reclaim such lands and thereby significantly contribute to production of food and agricultural raw materials in the country. There are several basic reasons for farm mechanisation and mention may be made of the following:

To overcome labour shortage (during the peak periods) and on draught animals, which have low productivity and high costs.

To increase the rate at which operations are performed by timely and effective farm operations.

To reduce cost of production by allowing more efficient utilisation of land, labour, irrigation and other inputs.

To increase total production by using water pumps and adopting multiple cropping and

To perform tasks that cannot be done effectively by traditional methods.

It has been computed that, on an average, India is having only one tractor per 1,000 hectares, as against 181 in Japan, 58 in West Europe, 23 in U. S. A., 10 in U S.S R. and 2 in Africa. Though India is backward in the use of machines for agricultural operations, in the past few years, there has been an increase in the use of modern implements. For instance, the number of tractors put to work on farms is estimated to have gone up from 148,300 to 444,192 during the period, 1972-79. However, mechanisation of farming in the country is less significant when compared to the advanced countries in the world.

Many of the major crop operations in India are rigidly bound by the season. The time period for soil preparation is limited between *kharif* harvest and *rabi* sowing. Because of the seasonality of agricultural operations, requirement of labour during peak periods is very high and hence labour shortage is usually experienced during this period. This necessitates the use of mechanical applicances in our agriculture. As better land preparation and also timeliness of agricultural operations are crucial for higher production, we are forced to use tractors in agriculture despite their adverse effects on employment.

Agricultural mechanisation has one major advantage over indigenous methods in timing of operations. Our traditional implements are crude, inefficient and inadequate. It is highly uneconomical to complete agriculture operations, using them. They need to be replaced by improved agricultural machinery and implements. A survey conducted by Sarkar and Prahladachar in the state of Karnataka revealed that, 61.5 per cent of the tractor owners were able to undertake agricultural operations in time. In fact, this was found to be their main motive for owning tractors.[1] Similarly, a study conducted by Umakesan revealed that the tractor farms were able to complete field operations including sowing in exactly half the time took by the bullock farms.[2] Jodha, in his work attributed the rapid spread of using tractors in Rajasthan to the timeliness of operations. On sandy to sandy loam soil with very low rainfall, the safe sowing period extends only for 5 to 6 days. Under those conditions, everybody likes to complete his farm operations and hence farmers are forced to resort to farm mechanisation.[3] Studies conducted in other countries also give more or less the same conclusions. Mechanisation contributes to timely operations, better land preparation and for higher cropping intensity which ultimately leads to bigger harvests. This may in turn require more labour during the post-harvest slack periods for threshing, storage, transport and marketing.

---

* Department of Cooperation and Applied Economics, Andhra University, Waltair.

The crux of the problem of mechanisation, however, is that in a labour abundant economy like ours the unemployment problem is very serious. The primary concern in these countries still remains the impact of mechanisation on employment. So far, there is no unanimity among agricultural economists whether or not mechanisation reduces employment of human labour in agriculture. However, it is true that tractors displace bullocks but not human beings because tractors are used largely to meet the drought power requirements. According to an estimate, bullock labour can be displaced to the extent 60 to 70 per cent on tractorised farms. As regards the impact of mechanisation on animal labour use, there is growing evidence to show that plough cattle are being replaced.

With respect to displacement of human labour, there is no unanimity among agricultural economists. Prof. C.H. Rao suggested that the use of farm tractors need not lead to unemployment in regions of expanding agriculture out put as they are used in response to genuine shortage and highest cost of draft power. He argues that selective farm mechanisation, especially of the land augmenting type such as tractorisation, can substantially raise the overall employment potential in the economy.[5]

A study[6] made by NCAER recently supports more employment opportunities in tractor-operated farm when compared to bullock farms. On an average, tractor-owner employed 110 5 man days per cropped hectare as compared to 104.8 man days by bullock farms. Thus, the aggregate employment provided by tractor owners is 5.4 per cent higher than bullock farms. Tractor users, as a group, employ 0.8 per cent additional man-days on a cropped hectare as compared to bullock farms.

Some others argue that mechanisation of agriculture would only act as an additional factor among several others in increasing unemployment in the country. In this connection, a study conducted by Bal H S.[7] is worth examining, since it has more clearly brought out the negative effects of tractorisation on employment. The study concluded that when bullock operating farms have resorted to farm mechanisation, it resulted in a decline of 16.51 per cent of employment of human labour. A part of the labour so displaced could be absorbed on the farm itself due to an increase in intensity of cropping, while others could be absorbed in the secondary and tertiary sectors engaged in the maintenance and repair of tractors, engines, motors and allied activities.

Tractorisation has been growing in India. But its spread among various states remains uneven. It is observed that 50 per cent of the tractors are concentrated in Haryana and Punjab. Utilisation of tractors was also identified in the areas where assured irrigation, with new technology, is available. In Andhra Pradesh, 50 per cent of the tractors are concentrated in West Godavari district, in Coastal Andhra. In this way some areas are well developed with all facilities while some areas where there is no initiative for further development remain backward. There is now an urgent need for the supply of tractors to underdeveloped states.

Under these circumstances, mechanisation motivates the farmers to shift from traditional farming into modern commercial farm. Hence, it is imperative on the part of the government to give encouragement to the farmers in the form of liberalised credit facilities through agricultural development banks. Those who cannot afford to purchase modern implements such as power tillers and tractors, should be provided the facility of hire-purchase through agro-industries corporations to perform their agricultural operations in time so that they can get a remunerative price for their produce.

APPENDIX I

TRACTORS PER THOUSAND HECTARES IN 1976

	Tractor population (million)	Arable land (million hectares)	Tractors per 1000 ha.
World	18 303	1398	13.10
U.S.A.	4.380	186	23.50
W.Europe	7.409	127	58.30
U.S.S.R.	2.402	227	10 60
Africa	0.416	195	2.13
Japan	0.800	4.4	181.80
India	0 251	165	1.50

Source: F.A.O. Production Year Book 1972, Vol. 31.

TRACTORS IN INDIA

1972	148,300
1979 (estimated)	444,192

REFERENCES

1. Sarkar, K.K. and Prahladachar, M. "Mechanisation as Technological Change", Indian Journal of Agricultural Economics, Vol. XXI, No.1, Jan—March, 1966, Table VII, P. 180.

2. Umakesan, R., A Comparative Study of Tractor and Non-tractor Farms in Coimbatore Taluq, An Economic Appraisal, M.Sc., Thesis. Division of Agriculture Economics, Post-Graduate Training Centre, Agricultural College and Research Institute, Coimbatore, 1971.

3. Jodha, Narpat, S., "A Case of Process of Tractorisation", Economic and Political Weekly, Vol. IX, No.52, Review of Agriculture, December 28, 1974.

4. (i) Abercrombic, K.C., "Agricultural Mechanisation and Employment in Latin America", in Mechanisation and Employment in Agriculture: Case Studies from four Countries, International Labour Office, Geneva, pp. 45-80.

(ii) Carl H. Gotsch, "Tractor Mechanisation and Rural Development in Pakistan", in Mechanisation and Employment in Agriculture, I.L.O., Geneva, pp. 129-162.

5. Hanumantha Rao, C.H., "Farm Mechanisation in a Labour-Abundant Economy", Economic and Political Weekly, Special Annual Number, Vol. VII, Nos. 5,6,7, Feb. 1972, pp.393.

6. Implications of Tractorisation on Farm Employment, Productivity and Income, Summary and Highlights, Page No. 27, NCAER, New Delhi.

7. H.S. Bal, "Impact of Mechanisation on Farm Labour Employment", Economic Times, 9th May, 1975.

Utilization of Irrigation Potential: Basis for Assessment

By **L. V. Ambegaonkar** *

How the irrigation potential of a project is measured seems to have aroused the interest of planners, admininistrators and the users of irrigation facility. This is also of some importance in settling differences among the states over the sharing of river waters. In this article, the author explains the factors that are taken into consideration while defining the irrigation potential of a project. He also suggests some refinements in the exercise.

THE term, irrigation potential, is the aggregate gross area that can be irrigated annually by the amount of water which could be made available by all connected and completed works of an irrigation project, including and upto the end of water courses or the last point in water delivery system upto which the Government is responsible for construction. According to this definition, it can be seen that potential is deemed to have been created only after water could be made available upto the end of water courses. It goes without saying that as a pre-condition, enough water must be available at the storage or diversion point to satisfy the needs of the lands that can be irrigated by the completed portion of the canal system.

The term gross irrigated area would include all the cropped area which will get irrigation water facilities whether in *kharif*, *rabi* or hot weather. The irrigated area under sugarcane or other perennial crops or two seasonal crops is counted once but the area covered by two or three crops in a year is counted twice or thrice as the case may be.

The term "irrigation potential utilized" connotes the total gross cropped area actually irrigated by a project during the year under consideration. As the utilisation of irrigation potential created can take place only in the year following the creation of such potential, the irrigation potential utilized in a particular year should be related to the potential created upto the end of the preceding year.

The parameters which determine the creation of annual potential are as follows :

1. Yield of water in the catchment area with a certain dependability such as 50 per cent, 75 per cent etc. The total rainfall in the catchment area of the dam determines the quantity available for utilization. The rainfall in the catchment are of rivers and streams varies from year to year. Hence there is a variation in the quantity of surface flow available in the rivers and streams from year to year. It, therefore, becomes necessary to know the range of variation in the quantity of flow available in a river during a period of years. This would enable one to fore cast, with a fair degree of accuracy, the extent to which one can depend on obtaining a specified quantity of water from the flow from year to year.

This is called the degree of dependability. The dependability *or* percentage dependability of available water represents the percentage number of years in which a specified quantity of water is available in full and in the remaining years the availability is less in varying degrees. At present, irrigation projects are designed to utilise flows with 75 per cent dependability. It is evident that the higher the dependability the less the quantity of water available for utilisation.

2. Out of the estimated yield of water that would be available, decision regarding how much to use in the *kharif* and how much to use in fair weather season, i.e., *rabi* and hot weather seasons needs to be made.

3. Evaporation losses in the storage.

4. Canal capacities needed for the designed use and

5. Transit losses on account of evaporation and seepage.

The term irrigation potential of an irrigation project is generally taken to mean the area which the project is designed to irrigate under various crops on full development as envisaged in the project cropping pattern. It is known that the irrigation water requirement varies from crop to crop and from season to season. Naturally, with a given quantity of water available in *kharif* season and fair weather season, a variety of crops with different water requirements could be grown. This has a relevance to the duty and delta of a crop. The term duty of a crop connotes the area of a crop which can be brought to maturity by one cusec of irrigation water delivered during its life time in which water is required to be given to the crop, called its base period. The term delta means the total depth of irrigation water required by a crop till it matures. The terms duty and delta are thus interrelated. If duty or delta for a crop is given, the other can be found from the following:

$$= \frac{1.98 \times B}{D}$$

Where – Delta i. e. total depth of irrigation water given to a crop in feet.

B – Base period in days

D – Duty of a crop expressed in acres.

Given the delta for rice, for example, as 4 feet and base period as 120 days, we have :

$$= \frac{1.98 \times 120}{D}$$

$$D = 1.98 \times 120$$

$$D = 1.98 \times 30$$

$$= 59.4 \text{ acres}$$

---

* Dr. Ambegaonkar is Reader in Economics, Department of Economics and Statistics, Marathwada Agricultural University, Parbhani.

Duty of a crop is generally expressed at distributary head. Since the length of distributaries as well as of minors and water courses differes very widely the loss of water in transit from the distributary, etc. to the field differs from one distributary to another. Therefore, the duty at distributary head obtained on one distributary would differ from that obtained on another. The duty obtained on a distributary of short legth would be more while that obtained on a distributary of long legth would be less.

For the purpose of assessment of water requirements of crops proposed to be irrigated on various distributaries it, therefore, becomes necessary to strike an average and adopt average duty for the canal system as a whole. Since duties for a new canal system cannot be known before hand average duties at distributary head on a comparable canal system in operation are adopted for estimation of water needs on the new canal system. Duty of a crop and the area under it helps in the assessment of the total water requirement of the crops proposed to be irrigated. For the sake of convenience in estimating the seasonal average discharge required for irrigating the crops in each of the three cropping seasons the term seasonal duty of a crop is used.

An irrigator is free to make his own choice regarding the crops to be grown and irrigated depending on the availability of water, resources at his command and the prevalent commodity prices. Obviously, therefore, even though the entire available water may be utilised, the cropping pattern obtained could be different from that designed in the project cropping pattern and since the water requirements of crops differ from one another the area actually irrigated could vary from the area designed to be irrigated in the project, i. e., from the irrigation potential of the project. Utilisation of the irrigation potential of a project is often assessed by merely comparing the area actually irrigated in a given year with that put down in the project. Such a comparison would not be valid unless both the figures of areas are converted to a common base. Without such conversion it would appear that even on the canals where the entire available water resource in fully booked, there may appear underutilisation. The method by which utilisation of a project potential is presently assessed does not, therefore, appear to be appropriate.

In order that the comparison is meaningful potential and utilisation has to be expressed in terms of the quantity of water either directly or in terms of a standard or base crop. There are two alternative ways; a) Comparison of the actual quantity of water in m.c. ft. (million cubic feet) utilised in a given year by various crops during *kharif*, *rabi* and hot weather seasons with the quantity of water available for utilisation in that year and b) expressing the physical area irrigated under various crops in a given year in terms of a base crop to which all the crops are reduced in consideration of their water requirements as compared to the base crop and comparing these figures with the figures of the base crop under project cropping pattern obtained by giving the same treatment.

The second method seems to be simpler and easier. The areas irrigated under various crops in a given year under an irrigation project can be readily reduced to a base crop in proportion and consideration of the duties adopted in the project report. This would enable us to bring all the area irrigated under various crops in a given year on the same footing. The area designed to be irrigated under various crops in the approved cropping pattern of the project would also be subjected to the same treatment. A comparison between the two figures would yield percentage utilisation of the irrigation potential of the project in a given year unless the particular year is a bad year with less than projected water available.

STATEMENT ABOUT OWNERSHIP AND OTHER PARTICULARS ABOUT SOUTHERN ECONOMIST

(FORM 4 See Rule 8)

1. Place of Publication : Bangalore
2. Periodicity of Publication : 1st and 15th of every month
3. Printer's Name : Mr. K. N. Subrahmanya
4. Publisher's Name : Mrs. Susheela Subrahmanya
(Whether citizen of India) : Indian
Address : 106-108, Infantry Road, Bangalore-1
5. Editor's Name : Mr. K. N. Subrahmanya
(Whether citizen of India) : Indian
Address : 106-108, Infantry Road, Bangalore-1
6. Names and addresses of Individuals who own the journal and partners or share holders holding more than one per cent of the total capital : Owners : Southern Economist Private Limited

(Share holders)

(1) Mr. K. N. Subrahmanya, 106-108, Infantry Road, Bangalore-560 001.
(2) Mrs. Susheela Subrahmanya, 106-108, Infantry Road, Bangalore-560 001.
(3) Mr. K. N. Satyanarayan, 106-108, Infantry Road, Bangalore-560 001.
(4) Mr. M. V. Veerendra Kumar, 11/15, Nandidurga Road, Jayamahal Extension, Bangalore-6. (5) Mrs. K. S. Sharadamma, W/o. Mr. K. S. Subrahmanya, State Bank of Mysore, Haveri Dist. Dharwar. (6) Mr. V. S. Natarajan, Brunton Road, Bangalore-25. (7) Mrs. Gita R. Pai, 5, Shashi Mahal, Naigaum Road, Dadar, Bombay-400 014.

I, SUSHEELA SUBRAHMANYA, hereby declare that the particulars given above are true to the best of my knowledge and belief.

(Sd.) SUSHEELA SUARAHMANYA
(Signature of the Publisher)

Dated March 1, 1982

book reviews

Resource-Allocation in Indian Planning

DEVELOPMENT planning necessitates investment allocation to different sectors and subsectors according to an agreed order of priorities. Practically all new investment in India—especially in the non-agricultural sector—is however planned and allocated according to an unambiguous order of priorities. There is, no doubt, some autonomous investment activity too, mainly in the primary and unorganised sectors but nearly all capital expenditure, theoretically at least, and particularly of a large scale, takes place at the behest of the state. Prof. Srinivasamurthy's book* is a masterly study of the impact of such centralised decision-making in respect of investment allocation during India's three decades of planning. The author has taken pains to make a close scrutiny of the allocations in plan outlays for the crucial sectors of the economy such as power, transport, irrigation, social services, agriculture and industry. Thereafter, he makes a critical appraisal of such allocations, keeping in mind the guidelines enunciated in the plan documents. The conclusions derived by Prof. Srinivasamurthy from his analysis are highly educative and one can move up over the learning curve related to planned economic development.

This work is of overwhelming significance because of the weighty subject it deals with. The success of any plan is invariably dependent upon how well resources are invested in different competing sectors and sub-sectors. The allocation exercise would be productive and meaningful only if there is clarity regarding what comes first and what next. Unfortunately, there is no unanimity or even a semblance of agreement among economists themselves as to what is the desirable pattern of economic development and what should be our desirable order of priorities. There are some who would opt for the Brazilian or Singapore or Hong Kong prototype of development even at the risk of being held guilty of the "cocacolanisation" of the economy and soft-pedaling of distributional aspects of development. There are others who would rather stand such a priority system upside down and plump for distributive justice first, and growth next. It is in addressing itself to this basic issue that one feels that there is some shortcoming in this book. This feeling arises for no fault of the author other than his lending credence to what the Government professes to be its credo. Consequently, discussion in this respect has only helped to put the cart before the horse.

Take, for instance, the statement of Prof. Brahmananda in his foreword to the book: "It is only through a careful study it would be possible to judge whether capital allocation as suggested by the Mahalanobis model or the Vakil-Brahmanand wage-goods model is pre-eminently suitable for achieving given objectives". Prior to the selection of such a model, it can easily be appreciated that in practice,either the so-called'given objectives' have not indeed been unequivocally given and the scholars have been merely presuming them to be the datum or there is ambiguity or pretence about such objectives which in any case have not been weighted. Consequently, it is nearly impossible even now to decipher the exact sequence in which growth and social benefits are supposedly being achieved and in what time-frame. In practice, allocation of investible resources neither helped achieve *to the extent desired*, the growth objective or the self-reliance or unemployment reduction, self-substaining growth, regional dispersal or any other.

Prof. Srinivasamurthy's study establishes that too many objectives and without ranking according to priority have made the task of resource allocation a sloppy and messy affair. One agrees with his charge that the planners have not been guided to any great extent by investment criteria such as for instance preferring low capital-output ratio industries, according priority to investments which are mutually reinforcing and promoting balanced growth rather than those which create imbalances and Hirschman tensions. He rightly calls for working out a trade-off between, and for evolving an internally consistent 'Objectives-Mix' (page 334). His study also helps one to conclude that once such a mix has been evolved, the resources including bank and term finance. foreign exchange and so forth should be preempted to the favoured priority sectors rather than for elitist consumer goods industries. Dealing with the planning technique itself, he has rightly criticised the obsession with targeting and the neglect of "sectoral, regional, temporal and technological" dimensions of investment allocation. He has done well to draw attention to the wide hiatus between the professed and adopted theory of balanced growth and the lip-sympathy thereto in the practical allocation of plan outlays.

Actually, investment allocation by the Government has followed no particular model *to the very hilt* or to put it in different words, there is no single-minded adherence to any one route to resource allocation. It is true that the theoretical underpinning for the Second Plan was provided by the Soviet (Feldman) type planning technique, as well as the Harrod-Domar model, as vetted by Prof. Mahalanobis. This model believed that the long term rate of growth is dependent to a significant extent on the strategic variable of that part of the investments allocated to the capital goods (k) rather than consumer goods (c) industries. But, what is crucial for us here is the subsequent admission by Mahalanobis himself to the effect that a large number of industries produced what could only be described as intermediate goods and it is difficult to say whether an item such as steel, petroleum, coal, power, etc. could be described as capital or consumer goods, or both. (Cf. P.C. Mahalanobis *Sankhya* Vol. 12, part 4, September 1953.)

---

* INVESTMENT ALLOCATION IN INDIAN PLANNING By A.P. Srinivasa Murthy, Himalaya Publishing House, Bombay, Pp 352, Rs. 90.

In this setting, the author and Prof. Brahmananda, as the co-author of the wage-goods model for resolving the contentious issue of vast unemployed man-power, should themselves quantify the sacrifices on account of the special emphasis on growth, and in particular on account of investment and growth in sector 'k' rather than in sector 'c'. The present study merely hints that "Nearly 3 decades of planning has had absolutely no impact on the pre-existing lopsidedness in the structure of India's economy, with as much as about 70-74 per cent of the total labour force being dependent on agriculture, which is not changed even a bit". This is because *inter alia*, apart from obfuscation of objectives at the implementation stage, the lobby of growthmen has always been very much stronger than the vastly outnumbered social scientists and others craving for egalitarianism and wanting to reach the benefits of progress to the poor. The Government itself, as the saying goes, has indulged in "talking left and doing right". And for all that, the big and cruel joke is even economic growth itself has been at a tardy 3.5 per cent rate.

Secondly, considerable politicisation is involved in the allocation of resources and implementation of plans, if not in their technical formulation. For instance, there may not be favourable locale specific factors for the setting up of a steel plant in area 'X' compared with the relative advantages in area 'Y'. And yet, if there is a strong enough political agitation around election time and the cabinet member from an 'X' area wields sufficient pull, it may still receive the necessary funds. Perhaps it would have been rewarding if the author had gone into these two aspects in some more detail since case studies supporting this conclusion have been multiplying.

And thirdly, if the heavy industry strategy failed, is it because it meant a neglect of the consumer goods sector and of agriculture? Or is it due to the inept execution of the strategy or on account of both the reasons? Incidentally, the author apparently agrees with Hirschman's diagnosis that in developing countries, the ability to promote new ventures far outstrips the ability to run them efficiently.

Some of Prof. Srinivasamurthy's observations are likely to generate much controversy and act as red-rag not only for bulls but, also for the wise owls. For instance, whereas his statement that the composition of national income shows only small changes in reducing the share of the primary sector is substantially true, recent studies including the one by Prof. V. K. R. V. Rao, do suggest that this statement further somewhat belittles whatever little progress has taken place. To give another example, the author states that the heavy industry strategy has suffered on account of inefficient implementation and its monitoring and such others. Elsewhere, a fear has been expressed that at the current rates of increase in capital-output ratios, we may reach a steady state of stationery state economy. Nowhere has it been emphasised that one of the major contributing factors for this adverse development has been the neglect of the economies of scale in the case of capital goods industries replete with indivisibilities yielding technical or engineering economies in both, capital and operating cost.

The several observations and conclusions in the book could trigger a great deal of heated discussion. It is humbly suggested to the Editor that he could undertake to convene a seminar on the subject of rationale and criteria for allocation of scarce investible funds, with Prof. Srinivasamurthy's book serving as a somewhat longish background paper.

— S. V. Char

One More Treatise on Indian Planning

Planning in India by Mrityunjoy Banerjee, Oxford & IBH Publishing Company, 66, Janpath, New Delhi-110001, First published 1981, Pages 230, Price Rs. 75.

In the ten chapters of this book, the author traces and analyses the five-year plans from the first to the current Sixth Plan. He has fairly succeeded in his attempt at lending credence to his analysis and conclusions with the help of adequate documentation. At times, however, it appears that he is speaking overly through this author and that authority though this exercise does not dilute the sustained interest of the reader.

Upto the description of the Fifth Plan, it is all straight—facts, figures, achievements and failures. Then follows the overview of plans wherein the author discusses the rolling plan concept as introduced by the then Janata Government at the Centre. But then, in this chapter also Harrod-Domar, Hanson, John P. Lewis, David E. Apter and a host of other foreign and Indian economists have been brought in to show what they have said in connection with economic planning in theoretical framework. At times, it becomes quite boring to be confronted with the views of someone or the other, almost from para to para. One wishes the author had not been so much obssessed with quoting others in such an extensive manner.

The subject of planning under the Janata Government has been discussed in a separate chapter in the book. Almost all material in it has been culled from newspapers and journals, which is not objectionable but surely, readers look for something refreshing and new, something original and rewarding. Equally, the chapter on Sixth Plan (chapter 10) is quite disappointing. Hardly 20 pages have been devoted to it and most of them contain statements of persons given in newspapers and periodicals. This kind of exercise does not make us any wiser. But perhaps, as the book is meant for students, its utility lies within the fourwalls of class-rooms.

— Navin Chandra Joshi

Record Freight Loading in 1981-82

PRESENTING the Railway Budget in the Lok Sabha on February 24, the Railway Minister, Mr. Prakash Chand Sethi, expressed the hope that the Railways would reach another milestone during 1982-83 by carrying 230 million tonnes of originating revenue earning goods traffic. A growth rate of 5 per cent in suburban and 3 per cent in non-suburban passenger traffic is envisaged during the year. Mr. Sethi referred to the improved freight operations during the year 1981-82 and stated that the Railways will be loading around 220 million tonnes, the highest ever freight loading achieved on the Indian Railways. In terms of traffic output, it would be 165 billions net tonne kilometres against 147.6 billions achieved in the previous year and the best ever figure of 150.25 billions. The wagon turnround reached an impressive low figure of 13.6 days on the broad gauge as against 15.2 days in 1980-81.

Mr. Sethi pointed out that increased movement of freight traffic helped immensely the economy of the country, especially in meeting the transport requirements of the core sector. The transportation needs of steel plants, cement and petroleum industry, thermal power plants, in respect of foodgrains, fertilizers and other essential goods were by and large met. Consequently, production increased all round and the era of shortages of essential goods has almost been left behind.

Railway Plan : 1982-83 will be the third year of the Sixth Five Year Plan for the Railways. Mr. Sethi stated that the emphasis in the Annual Plan for 1982-83 will be on renewal and replacement of worn out assets. The Plan allocation for 1982 83 has been fixed at Rs. 1,137 crores. It is hoped that considering the crucial role of the Railways in the economic development of the country it would be possible for some more allocations being given to the Railways during the course of the year.

However, of the Annual Plan allocation of Rs. 1,137 crores, nearly 50 per cent would be spent on replacement/renewal account. The position today is that about 13,000 kilometres of railway track are in urgent need of renewal and 40,700 wagons and 3,150 coaches are over-aged. Similarly, steam locomotives need replacement by diesels/electric locomotives. Same is the position in respect of machinery and plant in workshops.

Rolling Stock : Giving an idea of the worn out assets, Mr. Sethi mentioned that by the end of the current Plan period, 17 per cent of the holdings of coches both on BG & MG and 10.58 per cent of the holdings of broad gauge wagons, as on 1-4-1981, would become over-aged. During 1981-82, over-aged rolling stock—600 coaches, 18,250 wagons and 550 locomotives—which cause considerable drop in productivity by not only cluttering up the capacity available but slowing down operations are likely to be condemned.

Capacity utilisation of workshops for periodical overhaul of coaches has been stepped up from 94 per cent in 1980 81 to 98.5 per cent in 1981-82. Workshop capacity for overhaul of wagons has also been raised from 77.5 per cent in 1980-81 to 90 per cent in 1981-82. A crash programme has been launched for inspection of roller bearings and other components to prevent accidents.

New lines and surveys : Mr. Sethi pointed out that with limited Plan funds available, it has not been possible for him to include many new lines and surveys in the Budget. As a matter of fact, a number of new railway lines and some conversions estimated to cost about Rs. 297.22 crores were included in the supplementary budget presented in August last. He stated that since the on-going projects and surveys were far too many in number, he was compelled to adopt the rational policy of utilising the scarce resources judiciously and complete a few of the projects at the earliest so that the nation can derive the benefit of investments rather than spreading the funds thinly on a large number of projects. It was in keeping with this policy that only token amounts have been shown as the outlay for 1982 83 against several of the sanctioned works.

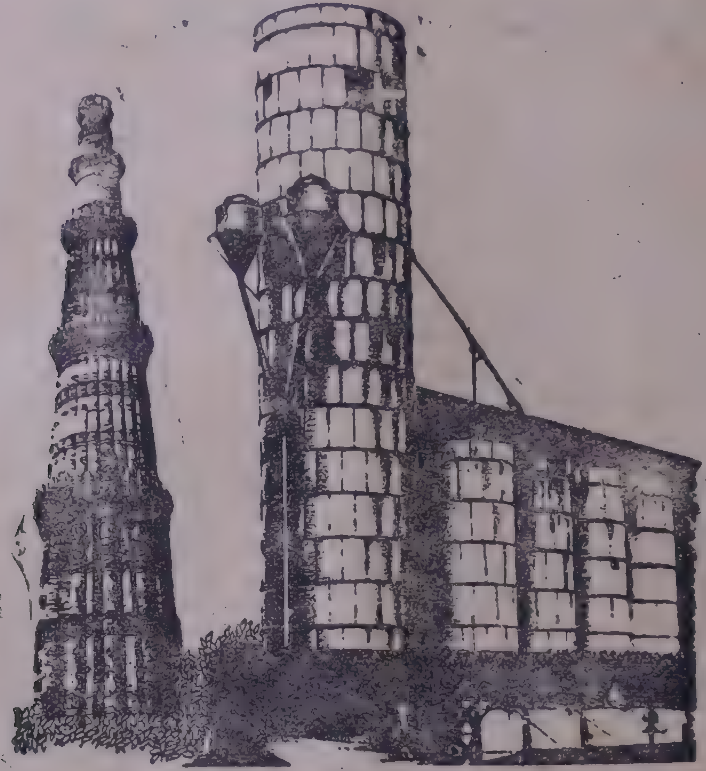
Electrification : The programme of railway electrification has been accelerated by commencing work on more than 2,250 kilometres on the main trunk routes. It is proposed to take up electrification of another 1,138 kilometres for the following sections :

Itarsi – Bhusawal
Itarsi - Nagpur
Balharshah - Wardha
Kazipet - Sanatnagar
Bhopal - Nagda

Mr. Sethi explained that with these, the entire trunk route between Delhi and Madras, Delhi-Bombay via Central Railway as well as Delhi-Secunderabad would get fully electrified.

The Railway Minister confessed that the results achieved in respect of passenger services have not been as spectacular as those in respect of goods. He, however, expected that the budgetted growth of 3 per cent in non-suburban and 6 per cent in suburban passenger traffic will be achieved.

Pointing out the limitations and problems in regard to passenger services, the Railway Minister mentioned that owing to inadequacy of financial resources, shortage of coaches, line capacity on various routes and lack of terminal facilities at destinations, it has not been possible to provide significant relief. However, outlining the various steps taken to create more passenger carrying capacity, the Minister referred to hauling of trains with two engines, replacement of steam locomotion by superior mode of traction provided



India presents yet another symbol of man's victory for mankind:

a 200-lakh tonne storage network that provides for the world's largest public distribution system.

On one hand you have the Qutab Minar. The tower of victory—proclaiming man's success in the martial arts, and in structural engineering.

Today, India can boast of another tower of victory—the tall, stately silo that stands out against the Indian skyline. Each a marvel of engineering, capable of storing thousands of tonnes of wheat in electronically controlled conditions. These silos, together with the conventional godowns form a two-thousand unit strong network, set up and maintained by the Food Corporation This network is today helping India to emerge the victor in her drive to provide foodgrains for 683 million of her people.

Forming the backbone of this network is the Government's unique two-pronged drive: to support the farmer, and protect the consumer. FCI procures about 130 lakh tonne grains every year from the Indian farmer at prices that are remunerative and work as an incentive for the farmer to grow more. These stocks and a "buffer" have called for an increase in FCI's storage capacity from 6 lakh tonnes in 1965 to 200 lakh tonnes in 1981—enabling FCI to provide every consumer uninterrupted supply of foodgrains at fair prices across the country. This calls for a massive movement activity that sees FCI using on an average nearly 2600 broad gauge wagons and 300 metre gauge wagons every day for despatching foodgrains, sugar and imported non-potassic fertilisers.

Manned by over 73,000 people, with 135 District Offices, 2044 Storage Points, 130 Quality Testing Laboratories, the Food Corporation of India is the single largest foodgrains distributor in the world.

FOOD CORPORATION OF INDIA

In the Service of the Nation

ASP/FCI/82

by diesel and electric engines, replacement of existing coaches with those of higher capacity, and increase in train loads by marginally decelerating trains.

Regardless of the limitations. upto December 1981, 43 additional non-suburban and 12 suburban trains were introduced. Andhra Pradesh Express between New Delhi and Secunderabad and pink City Express between Jaipur and Delhi were double headed. New Delhi-Bombay Janata Express and Madras-Howrah Janata Express have been put on diesel traction. The load of New Delhi-Lucknow Gomati Express has been increased to 18 coaches. By re-scheduling time of Howrah-Delhi Rajdhani Express, this train would be hauling 12 coaches instead of 9 coaches at present. The carrying capacity of New Delhi-Bombay Rajdhani Express has been increased by 73 seats. The frequency of Howrah-Bombay Gitanjali Express and Howrah-Jammu Himagiri Express has been increased from 4 to 5 days and 2 to 3 days a week respectively.

Mr. Sethi stated that he proposes to introduce a pair of steam-hauled super fast trains between Jaipur and Agra Fort. The increase in frequency of Madras-Ahmedabad Navajivan Express is proposed to be increased by a trip per week. The Grand Trunk Express would be double-headed to haul 21 coaches against 16 coaches at present. New Delhi – Bombay Rajdhani Express would also be double-headed to haul 18 coaches as against 10 coaches at present. Double-decker coaches of the capacity of 140 passengers against the normal 80 are also being introduced for increasing the un-reserved accommodation on trains.

Heavy Increases in Freight and Fares To Net in Rs. 261 crores

SECOND CLASS ORDINARY (Suburban and Non-Suburban, other than season tickets): (a) The exemptions given with effect from 15-7-80 (from 10 per cent surcharge upto 100 Kms.) and from 1-4-1981 (from 5 per cent surcharge upto 200 Kms.) are proposed to be withdrawn and the fares rounded off to the next higher multiple of 10 paise. (b) It is also proposed to revise the fares of this class from 1-4-82 as under: (i) fares upto 400 Kms. will be increase by 4 paise for each block of 5 kms. (ii) fares from 401 kms. to 800 kms will be increased by 3 paise for each block of 5 kms, and (iii) for distances over 800 kms. the fare will be raised by 2.5 paise per 5 kms. (c) The minimum fare will be raised from 50 paise to 70 paise.

Second Class Mail / Express (other than season tickets): There is an increase the fare for this mode of travel on the same basis as for Second Class Ordinary. The minimum charge will also be raised from Re. 1 to Rs. 1.50.

Air-Conditioned Chair Car: It is proposed to increase the fare for this class as follows: (a) upto 250 kms. No change. (b) 251 kms. and above increase by 2 paise per km.

Air-Conditioned '-Tier Sleeper: At present a surcharge is levied at Rs. 15 upto a distance of 1000 kms. and Rs 25 for longer journeys. It is proposed to re-adjust the levy of surcharge as under: upto 500 kms. Rs. 15 per ticket; 501 to 1000 kms. Rs. 25; 1001 to 1500 kms. Rs. 40; 1501 kms. and above Rs. 50.

Air-Conditioned Class: It is proposed to increase the fares for this class by 10 paise per km. for journeys above 80 kms. subject to a maximum of Rs. 40 per ticket.

Sleeper Surcharge: At present, this charge is Rs. 5 per night for the first two nights, with no additional charge for the subsequent nights. It is proposed to raise this to Rs. 8 per night for the first two nights, without modifying the condition regarding the subsequent nights being free.

Surcharge on Superfast Trains: These trains provide higher standard of comfort and give considerable value in the form of saving of time to the users. It is proposed to upgrade the surcharge as under: Air-conditioned Class from Rs. 20 to Rs. 25; First Class and AC two-tier sleeper from Rs. 10 to Rs. 12; AC Chair car from Rs. 6 to Rs. 12 Second Class Sleeper from Rs. 2 to Rs. 6. There will be no change in the surcharge for Second Class sitting accommodation on these superfast trains.

Rajdhani Fares: It is proposed to increase the fares for Air-conditioned class and two-tier AC Sleeper by 20 per cent and AC Chair Car by 25 per cent.

Free Travel By Children: To avoid misuse of the facility and disputes, I propose to reduce the age-limit for free travel by children from the present 5 years to 3 years. This is in fact only a restoration of the earlier age-limit which was increased during the International Year of the Child.

Parcel Freight Structure: It is proposed to implement the Rail Tariff Enquiry Committee's recommendations on the parcel freight structure. This Committee had pointed out that the Railways had incurred a loss of Rs. 25 crores in 1976-77 for the carriage of Parcel traffic and there were no compelling social grounds for running the services at a loss. It is proposed to group the parcel traffic into six groups against fourteen at present with a separate scale or norm for charging.

Freight Charges: The exemptions from levy of supplementary charges from 1-4-1979, 15-7-1980 and 1-4-1981 allowed in respect of certain commodities are proposed to be withdrawn so as to rationalise the freight rates. While withdrawing the exemptions, it has been ensured that firewood, medicines, fodder (other than oil cake), kerosene oil and safety matches continue to enjoy the exemptions. Some special concessional freight rates are in force for transportation of bananas and oranges. The existing concessions will be allowed to continue upto 30-6-1982, whereafter they will be withdrawn.

The anticipated additional annual revenue from these revisions is Rs. 172.60 crores from passenger traffic, Rs. 12 crores from luggage and parcels and Rs. 76.85 crores from freight traffic, making a total of Rs.261.45 crores, which would just cover the gap between traffic receipts and revenue expenditure, payment of dividend to General Revenues, Development Fund expenditure and very limited liquidation of indebtedness to General Revenues.

PUBLIC SECTOR

Government Undertakings Fare Better In Southern Region

THE Central Government public sector enterprises in the Southern Region performed exceedingly well during the past 2 years, according to a quick survey conducted by the Standing Conference of Public Enterprises (SCOPE), the national apex body of the central sector public enterprises in the country, with its headquarters at Delhi. The South-based undertakings achived a spectacular growth in production, turnover and profitability. In the year 1981-82, this group of industries is projected to achieve a turnover growth of 49 per cent as compared to the year 1979-80. The profits of the group for 1981-82 are projected at Rs. 101 crores, as against Rs. 76 crores in 1979-80, representing an increase of 33 per cent. Investment in these undertakings rose to Rs. 2,804 crores in 1981-82 as against Rs. 2,214 crores in 1979-80—a growth of 28 per cent. There are 40 companies in the southern region—13 in Karnataka, 11 in Tamil Nadu, 9 in Andhra Pradesh 6 in Kerala and 1 in Andaman and Nicobar.

Production growth : Almost all these Undertakings recorded spectacular growth in production in 1981-82, compared to 1979-80. Percentage growth over this period among the enterprises in the Southern Region was the highest at 65 per cent in Petroleum and Chemical Group of Companies. The consumer goods and services undertakings recorded a growth of 45 per cent, Heavy Engineering 38 per cent, Minerals 22 per cent, Steel 19 per cent and Light and Medium Engineering 14 per cent. The growth percentage in Dredging Corporation was 13 per cent and in the 5 trading and marketing enterprises, 6 per cent.

Turnover growth : The South-based public undertakings increased their turnover from Rs. 2,321 crores in 1979-80 to Rs. 2,842 crores in 1980-81, representing a growth of 28 per cent and to Rs. 3,465 crores in 1981-82; showing a remarkable growth of 49 per cent over the year 1979-80. Industry-wise, Minerals and Metals Group recorded 96 per cent turnover growth in 1980-81, compared to 1979-80. The Trading and marketing Group recorded a turnover growth of 62 per cent. In the Dredging Corporation, the turnover increased by 30 per cent. The consumer goods and services undertakings showed 56 per cent growth, while Steel recorded 49 per cent, Heavy Engineering 48 per cent and Light and Medium Engineering 47 per cent. Investment in the 37 South-based Units rose from Rs. 2,214 crores in 1979-80 to Rs. 2,609 crores in 1980-81, an increase of 18 per cent, and to Rs. 2,804 crores in 1981-82, representing a growth of 28 per cent over 1979-80.

Profitability growth: The phenomenal increase in the turnover in all the industries which was achieved due to traditional combination and utilisation of resources, viz., machines, materials, money and manpower, gave rise to a sizeable growth in profitability in this group of undertakings. The profits rose from a level of Rs. 76 crores in 1979-80 to a projected Rs. 101 crores in 1981-82, reflecting 33 per cent growth. The increase in profits in 1981-82 as compared to 1979-80 was as much as 122 per cent in Heavy Engineering Group, 107 per cent in Petroleum and chemicals group, 43 per cent in light and medium engineering companies and 32 per cent in insurance and banking. The companies under consumer goods and services group could not make profits, as the prices of their inputs went up sizeably.

The prices, in terms of the normal prudent commercial practice and the input price rise, would call for a corresponding rise in the prices of the end-products of this group of undertakings. However, these Undertakings took a conscious decision not to raise the prices of their end-products, in keeping with the rise in prices of inputs, to save the weaker sections of the society from the additional burden on their purse, especially as the products cater largely to the rural masses and holding up the price line of these products was considered as a necessary relief measure for the common man.

The southern region undertakings contributed to the national exchequer foreign exchange of about Rs. 100 crores in the year 1980-81 and would contribute Rs. 125 crores in the year 1981-82. About 25 per cent of this contribution is in the form of direct foreign exchange earnings and the balance in the shape of savings through import substitution and indigenisation.

India — The Turbulent Half-Decade

BY K. N. SUBRAHMANYA

(200 pages, Rs. 65, Post-free)

The book covers the momentous happenings of the period, 1975-80, namely, J. P.'s "total revolution", Allahabad High Court's judgement, the Emergency, the "ballot revolution" which brought Janata Party to power, the break up of the Janata conglomerate, the return of Mrs. Gandhi to power and her first year's record.

Copies can be had from :

Southern Economist,
(Book Division)
106-108, Infantry Road,
Bangalore-560 001.
(20% discount for Subscribers)

31 MAR 19
C.F.T.R.I.

Budget is Investment-oriented but lacks Anti-inflation Bias

By K. K. SHARMA *

THE Central Budget for 1982-83 was presented in an economic environment where emphasis has been shifted from crisis management to economic growth. Revival in the economy began in 1980-81 when industrial production rose by 4.1 per cent as against a fall of 1.4 per cent in 1979-80, while gross domestic product rose by 7.5 per cent as against a fall of 4 6 per cent in the preceding year. The wholesale price index which had risen by 21 7 per cent in 1979 80 rose by 16 7 per cent in 1980-81 and by about 8 per cent in 1981-82.

The pre-budget *Economic Survey* had pointed out that the performance of the economy was highly satisfactory but a fair assesment would be that the economy had shown some improvement. The steps taken by the Reserve Bank of India in the sphere of monetary policy in July 1981 had produced effects in controlling the rise in prices. The cash credit ratio was raised from 6 per cent to 8 per cent in two stages. The statutory liquidity ratio was raised from 34 per cent to 35 per cent and bank rate was raised from 9 per cent to 10 per cent. The R.B.I. also introduced changes in the deposit and lending rates.

The budget provision for revenue and capital receipts for the year is placed at Rs. 27,134 crores, while disbursements come to Rs. 29,219 crores showing an overall deficit of Rs. 2,085 crores. After taking into account an amount of Rs. 535 crores, as receipts from fresh imposts and deducting the share of the States of Rs. 63 crores, from the Centre's share comes to Rs. 470 crores and adding thereto the expected receipts of Rs. 250 crores from capital Investment Bonds, the total additional receipts amount to Rs. 720 crores. The uncovered deficit is thus placed at Rs. 2,085 crores. Minus Rs. 720 crores it will be Rs. 1,365 crores.

Minor changes have been made in direct taxes. The tax rate on income slabs from Rs. 60,001 to 1,00,000 has been raised by 2.5 per cent, while the exemption limit in wealth tax has been raised from Rs. 1.50 crores to Rs. 1.65 crores. The wealth tax on plantation of tea, coffee, rubber etc. has been discontinued. There has been a rise of 5 per cent in the customs duty. In the case of cement industry, dual price will replace control. The producers in the free trade zones will be permited to sell 25 per cent of their product in the domestic market. The levy price will be determined by the Government.

CONTENTS

Budget is Investment-Oriented But Lacks Anti-inflation Bias — *K. K. Sharma* 1

Budget is Attuned to the Year of Productivity — *A. Mariaraj and M. Sebastian* 3

Union Budget Lacks Perspective — *S. K. Awasthi* 5

Budget Imposts, together with Earlier Levies, will Have Adverse Cascading Effect — *G. Prasad, K. Viyyanna Rao and V. Chandrasekara Rao* 7

Proposals to Boost Exports and Reduce Imports are Praiseworthy — *Francis Cherunilam* 11

Big Uncovered Deficit May Lead to Another Bout of Inflation — *Radha Raman Singh* 13

New Levies Unlikely to Cause Setback to the Economy — *C. John* 15

1982-83 BUDGET SPEECH OF UNION FINANCE MINISTER, MR. PRANAB MUKHERJEE — PART 'A' & 'B' *P. 17 to 30*

It is a Growth-Oriented Budget — *P. K. Jha* 31

Budget Provides Enough Incentives to Saving and Investment — *B. R. K. Rau* 31

A Grim and Unexciting Budget — *Navin Chandra Joshi* 33

Could have been a Little More Considerate Towards the Poor — *K. Sain* 35

Mr. Mukherjee could have Avoided Stepping up Postal Rates — *B. Kumar* 35

A Zero-sum Exercise with in-built Inflation — *P. Jegadish Gandhi* 36

A Balanced Budget but Inflationary Pressure Remains — *A. K. Agarwal* 37

Short-term Problems Are Tackled Effectively — *Madhuri Srivastava* 39

1982–83 Budget Statistics 42

---

* Dr K. K. Sharma is Ex-Principal, Meerut College, Meerut.

and there will be free sale in the open market. The import duty on cement will rise by 10 per cent with a full counterveiling excise duty. The excise duty on cement has been raised from Rs. 71.5 per tonne to Rs. 135.00 per tonne. The yield from indirect taxes will be Rs. 535 crores.

Postal charges have also been raised which are expected to yield about Rs. 55 crores. Some Tax concessions have been given to persons having low incomes. The return from investment in life insurance, and provident fund will be exempted from tax. The ceiling thereof has been raised from Rs. 30,000 to Rs. 40,000. A deduction of 100 per cent will be allowed on the first Rs. 6,000, 50 per cent on the next Rs. 6,000 and 40 per cent on the remaining 28,000. The ceiling limit in the case of actors, sportsmen etc. has been raised from Rs. 50,000 to 60,000. The exemption limit on interest earned on bank deposits, units of UTI and Government securities has been raised from Rs. 3,000 to Rs.4.000. The exemption limit in the case of the units of UT has been raised from 2,000 to Rs. 3,000. The limit of standard deduction has been raised from 20 per cent to 25 per cent with a ceiling of Rs.5,000. The encashment benefit in lieu of earned leave given on retirement is exempted from income tax. The deduction allowed to owners of self occupied house has been raised from Rs. 1,800 to Rs. 3,500. The letting value of a newly constructed house let out on rent to be reduced for tax purposes has been raised from Rs. 2,400 to Rs. 3,600. The loss to the government as a result of relief granted to the lower income tax payers will be :

	(Rs. in crores)
(i) Standard deduction	21.58
(ii) Provident Fund and Life Insurance premia	26.17
(iii) (Tax free) unearned income	12.12
(iv) Wealth tax and investment with Unit Trust of India	1.54
	62.41

The gains for the economy will be equally insignificant. Relief in excise duty is given on 38 items to the extent of 20 per cent if the output exceeds 10 per cent of the output of 1981-82. It will benefit students and others. Reference may be given to two new schemes introduced to mobilise savings.

(i) Social security Certificates can be purchased by persons between the ages of 18 and 45 years up to the limit of Rs. 5,000. The amount will be tripled in 7 years. Full payment will be made if death occurs earlier.

(ii) Capital Investment Bonds carry interest at 7 per cent. They will mature in 10 years. Interest on them is free from income tax, wealth tax and gift tax up to Rs. 10 lakhs.

The plan outlay has been raised by 21 per cent from Rs. 17,479 crores to Rs. 21,137 crores. The investment envisaged in infrastructural industries during the year is given below:

	(Rs, in crores)
i. Crude petroleum	2,045
ii. Steel	860
iii. Chemicals	507
iv. Power	929
v. Coal	877
vi. Transport	1,757

There is a provison of Rs. 190 crore for National Rural Employment Scheme. The states will have to provide an equal amount. The scheme will provide 350 million man-days employment in Rural areas. The provision for subsidies on food, fertilisers and exports comes to Rs. 1,770 crores.

Steps have also been taken in the budget for safeguarding the balance of payments position. Our external reserves have fallen by more than Rs, 1,000 crore in the first six months of 1980-81 and they stood at Rs. 3,781 crores in September 1981. The trade deficit is also growing and expenditure on oil imports has gone up to Rs.5,000 crores. Exporters whose turnover for a year exceeds previous year's turnover by more than 10 per cent are entitled to tax relief. This will encourage exports.

Steps have also been taken to encourage non-resident Indian to transfer funds to India. For instance, construction contractors working abroad will be exempted to the extent of 25 per cent of their profits from income tax if they fulfil certain conditions. Indian Banks, operating in foreign countries with government approval will be given a deduction of 40 per cent if their profit is deposited in special accounts in India. Non-resident Indians who invest in new or existing companies up to 40 per cent of their capital or in shares of companies quoted on stock exchanges without repatriation rights also get relief. Indian nationals abroad who send their deposits in Indian banks will get an extra two per cent interest over the rate permitted on local deposits of the comparable maturities. Gifts made in India out of the deposits in external accounts will be free from gift tax.

The imposts proposed to be levied in the budget, the deficit of the centre and the deficits of the states, increase in postal charges and in railway rates and fares will increase the price level. They will impose a burden on the people, and the consumer will be hit hard. Our tax system is completely out of step with the needs of modern economy. It is beset by domestic and worldwide inflation. Our economy is faced with balance of payments difficulties and is in urgent need of international financing. The tax rates including the rates of wealth tax, gift tax and estate duty make it virtually impossible for a well-off tax payer to be really honest.

As a result, there is a great built in inncentive to evade payment of taxes if people can get away with it. Thus black income arises and black mony flows into the parallel economy, thereby raising the price lewel and hitting the consumer hard. There should be indexation of taxation level to the increase in the price level. That has been done in several other countries. Black money will, however, arise as there is scarcity of essential commodities in relation to demand. One of the measures suggested by economists to curb black marketing is to replace income tax by consumption tax. This was suggested by Prof. Nicholas Kaldor in 1956 for India. It was also recommended by the Mead Committee in England in 1979.

The Finance Minister has sought to give further relief to the lower income tax payer through changes in income taxation, and to the honest rich through changes in the wealth tax etc. He has also sought to stimulate exports and domestic production of items in short supply by giving fiscal incentives.

Budget is Attuned to the Year of Productivity

By A. MARIARAJ* and Dr. M. SEBASTIAN**

THE Union Budget for 1982-83 is designed to promote savings and investment in the economy. Larger the savings and investment, the higher will be the efficiency and production. These will help maintain the momentum of growth and development in the economy. Hitherto, several steps have been taken in our country to boost up private savings and investment. But the current budget has introduced two new savings instruments to mobilise private savings for the public use. The first is a Social Security Certificate which has been specially designed for the small savers. Under this scheme, an individual between the ages of 18 and 45 can invest upto Rs. 5,000 which will triple in 10 years. It is a novel scheme fetching attractive cumulative interest for the invested money and it will provide social security to the family of the certificate buyer.

The second is the Capital Investment Bond aimed at attracting larger flow of private savings for public sector investment. Though this scheme has a resemblance to the Special Bearer Bond Scheme, it is more respectable and less controversial. It is expected to be more attractive and popular. It will have a maturity of 10 years and carry an interest rate of 7 per cent, free of income tax, exempt from wealth tax upto Rs. 10 lakhs and also from gift tax.

Rules have been so liberalised that they will attract more remittances from Indians residing abroad. "Any investment without repatriation rights, made by non-residents of Indian origin, so long as it is not for transactions in commercial property and land, will be treated in the same footing as investments of resident Indian nationals". The non-residents will be allowed to invest with repatriation rights in any new or existing company upto 40 per cent of the capital issued by such company. Another concession is that they can purchase shares of companies quoted on the stock exchanges subject to specified limits. Further, the interest rates on new deposits of maturities of one year and above held in non-resident external accounts will carry interest of two per cent above the rates permissible on local deposits of comparable maturities. Gifts made in India out of deposits in these external accounts will be free from gift tax. These measures, particularly the latter, will attract savings for investment on a large scale.

Even the ordinary people prefer to save their income in the banks. In other words, banking habits are spreading fast among all sections of the people. And that is why, the government is extending banking facilities to underbanked rural and semi-urban areas and enlarging the flow of credit to priority sectors. Adequate provisions have been made in this regard in the current budget. The bank rate has been increased from nine to ten per cent and refinancing rates of RBI have also been raised.

Inflation is an invisible tax which is bound to affect adversely savings of the public and consequently, the personal savings may get reduced. Realising the monstrous effects of inflation, the Finance Minister has initiated the fight against inflation by enhancing the agricultural and industrial production. The deceleration in the wholesale prices has occurred in a wide range of commodities and this is being gradually reflected in the consumer price index. This state of affairs during the last financial year would certainly accelerate the savings activities of the people.

Moreover, the middle class people, salaried persons, houseowners and pensioners do get monetary benefits in this budget which may enable them to contribute to their savings considerably. For example, the tax reduction of the salaried tax payers from 20 per cent to 25 per cent without disturbing the ceiling of Rs. 5,000 is a good measure though not a significant measure of relief to those with salaries upto Rs. 20,000. Tax payers who are not in receipt of house rent allowance are entitled to a deduction upto Rs. 300 per month in respect of the house rent paid by them. A lump sum of Rs. 350 crores in 1982-83 has been set apart for the payment of additional instalments of dearness allowance and pension relief to central government employees.

Over and above these proposed measures of the recent budget, certain long term measures relating to LIC and PF have been proposed to accelerate the saving rate of the country. They are: (i) deduction of 100 per cent in respect of the first Rs. 6000 of the qualifying savings, plus 50 per cent of the next Rs. 6000 of such savings plus 40 per cent of the balance; (ii) raising the ceiling in respect of the savings qualifying for deduction from Rs. 30,000 to Rs. 40,000 and (iii) raising the higher monetary ceiling in respect of the qualifying savings in the case of authors, playwrights, artists, musicians, actors, sportsmen and athletes from Rs. 50,000 to Rs. 60,000. No doubt that these measures also will help push up the private savings in the course of the financial year 1982-83 to some extent.

It should be noted that savings need not always lead to investment. If saving are to be channelled properly into investment, a favourable atmosphere for investment must be created in the country. In this context, our Finance Minister has taken pains to evolve some measures in the budget to accelerate both the private and public investments in the country. As a first step, attention has been focussed on the development of the infrastructural sector which has been a big bottleneck to our developmental efforts all these years. An increased outlay of Rs. 1,757 crores for the development of transport and Rs. 184 crores for the progress of science and technology has been allotted for the year 1982-83. The increase in industrial production in public sector industries is expected by concerted efforts proposed in the budget. Monetary and credit policies during the year continue to emphasise the requirements of meeting the credit needs of higher production, particularly in the priority sector. A provision of Rs. 480 crores has been made in the budget for 1982-83 for various programmes of the Departments of Heavy Industry and Industrial Development, including Rs. 97 crores for the Khadi and Village Industries Commission.

---

* Assistant Prof. of Economics, St. Joseph's College Tiruchirapalli.

** Professor of Economics, St. Joseph's College, Tiruchirapalli.

Moreover, the decision to exempt tea, coffee, rubber and cardomon plantations from Wealth Tax, the offer of incentives to non-residents and the proposal for dual pricing for cement are the right types of concessions aimed at encouraging increased production and further developments. The other forms of concession proposed to facilitate the investors are : (i) the ceiling on the value of investments in specified financial assets exempted from wealth tax is raised upto Rs. 1,65,000 from Rs. 1,50,000(ii) the exemption limt of Rs. 25,000 provided for investment in units of the Unit Trust of India is being raised to Rs. 35,000. These are intended to encourage investment through enhanced savings. Among other proposals, the excise concessions for increated production in respect or 36 items which include some basic industrial raw materials and agricultural inputs are development-oriented.

With a view to sustaining the tempo of increased production, the budget provides an outlay of Rs. 2.045 crores for the production sector, including refineries and petro-chemicals. It represents an increase of 90 per cent over the current year. Investment allowance at the highest rate of 35 per cent is granted in respect of machinery and plant installed in manufacturing. In order to enable the handloom sector to register faster growth, it is proposed to fully exempt from excise duties polyester blended fabrics woven on handloom. The present budget provides the export base by granting some tax relief to exporters whose export turnover for any year exceeds that of the immediately preceding year by more than 10 per cent. With a view to improving the competitiveness of the export of plant and machinery, it is proposed to exempt interest paid on credit sanctioned by scheduled banks for export of capital plant and machinery on deferred payment terms outside India. Thus, the Union Budget proposals are in consonance with the "Year of Productivity".

To conclude, although the budget for 1982-83 at first sight may seem clumsy and untidy, on closer scrutiny it presents a slightly different picture. The first impression is one of imposing an additional burden of Rs. 1,300 crores in a year, including hike in the rates of railways and post and telegraphs. But on a closer perusal, it is found that the poor and middle class have been spared of any heavy burden, the savers and investors have been granted some good concessions and the corporate sector responsible for growth and development has come to enjoy many concessionary privileges in the budget. Thus, the budget proposals for 1982-83 will certainly augment productivity, encourage savings and accelerate investment and economic growth.

TODAY'S SAVINGS
TOMMORROW'S SECURITY

SAVE IN

BANK OF MADURA'S

- AMUDHA SURABI DEPOSIT SCHEME.
- COMPREHENSIVE CUMULATIVE MULTIPURPOSE DEPOSIT SCHEME.
- MONTHLY INTEREST DEPOSIT SCHEME.
- SMALL SAVINGS PRIZE DEPOSIT SCHEME Rs. 500/- SERIES.
- FIXED DEPOSIT CARRIES INTEREST AT 10% JUST FROM THREE YEARS.

Contact : **ANY ONE OF OUR BRANCHES**

"GROW WITH GROWING BANK"

BANK OF MADURA LTD.

(A Major Scheduled Bank In India)

Regd. Office : **33, North Chitrai Street, Madurai-625 001.**

Central Office : **758, Mount Road, Madras-600 002.**

RM. MUTHIAH
Chairman

Union Budget Lacks Perspective

By S. K. AWASTHI *

THE problem of resources has not been new for India but it has definitely become much more acute at the present juncture on account of the fact that (i) the Government has not been able to control its own consumption expenditure; (ii) much higher expenditure is required for the development of power and petroleum sectors; (iii) a substantial increase is being considered necessary in defence expenditure; (iv) a reduction in subsidies and check on deficit financing suggested by the International Monetary Fund; (v) and the growing deficits in state government Budgets, which will ultimately have to be funded by the Central Government. The pressures on the Central Budget were thus evident.

The Budget presented to the Lok Sabha by the Finance Minister contains a number of constructive proposals. Among these are the moves — long anticipated — to replace price controls in the cement industry with a system of dual pricing and open market sales and to allow producers in the free trade zones to sell a quarter of their product in the domestic market. Other welcome features are the move to give tex relief to exporters who exceed their targets, and to reduce excise duties on the additional output of no less than 38 products that are in short supply. But beyond these, its chief feature is its lack of courage. The two central problems that any finance minister needed to address himself to in the chief economic policy instrument of the Government, are (a) the mitigation of the effects of the inflation, and (b) the reduction of the flow of concealed incomes into the parallel economy. Mr. Mukherjee has done little to tackle either of these problems. Inflation raises the effective rate of all direct taxes, without seeming to. In the process it directly encourages the concealment of income by all those who can get away with it.

The only equitable way to check this drift is to index the rate of taxation and the exemption limit for all direct taxes to the cost of living. Faced with chronic inflation, several advanced countries have already done this. But Mr. Mukherjee's only concession to the honest tax payer at the lower end of the income scale is a small increase in the standard deduction on taxable incomes upto Rs. 20,000. In the same way, at the top end of scale, the modest increase in the exemption of unearned income, the minor concessions in the assessment of self-occupied houses, and the increase in the value of specified assets exemption from the wealth tax, can hardly offset the effect of inflation on present incomes and future tax burdens.

As a result, people will continue to sell or rent out their houses and other assets partly in black money for fear of raising the value of the property for wealth tax and death duty purposes, and will conceal as much of their incomes as possible. Nor are the incentives to savings in the form of provident fund contributions and life insurance premia any more attractive. The returns on these are so low that in an era of eight per cent inflation even the additional tax exemptions offered by the Finance Minister fail to make them attractive.

The failure to adjust the direct tax system to cope with inflation virtually ensures that one major source of black moneyt he concealment of legitimately earned incomes (as distinct from incomes earned by smuggling, blackmarketing and bootleging) will remain unplugged. The one important tax that Mr. Mukherjee has provided—the Capital Investment Bond—is a vast improvement on the Rural Development Bonds which were launched by Mr. Charan Singh, because the interest of seven per cent on the new bonds is free of tax But once again, even this is only attractive to the very rich when the average rate of inflation is much higher. If the budget has made only a token gesture towards the personal income tax payer, it has completely ignored the plight of the corporations.

All the pleas made by private industrialists and economists over the last year to delink the capital assets, have clearly fallen on deaf ears. As a result, industry will remain in the unenviable situation of not being able to cover even a fraction of its replacement and modernisation costs out of its accumulated depreciation funds. This is a recipe for spreading industrial sickness. The Government has remained oblivious to a danger that most other countries, both developed and developing recognised long ago.

While viewing the the problem of under development and budget with a perspective as provided by Prof. P. D. Hajela, past President of Indian Economic Association and a former Vice-Chancellor of University of Allahabad, the budget does not contain anything. Prof. P. D. Hajela defines an underveloped area as one where one being left to themselves the various "determinates of development," fail to harmonise effectively to produce development. Therefore, there is the need of an agency to provide for development. That agency is, in fact, the State. Therefore, the greater is the State interference, the greater is the degree of economic planning. The type of "mixed" economy which the country has, may not lead us to any development.

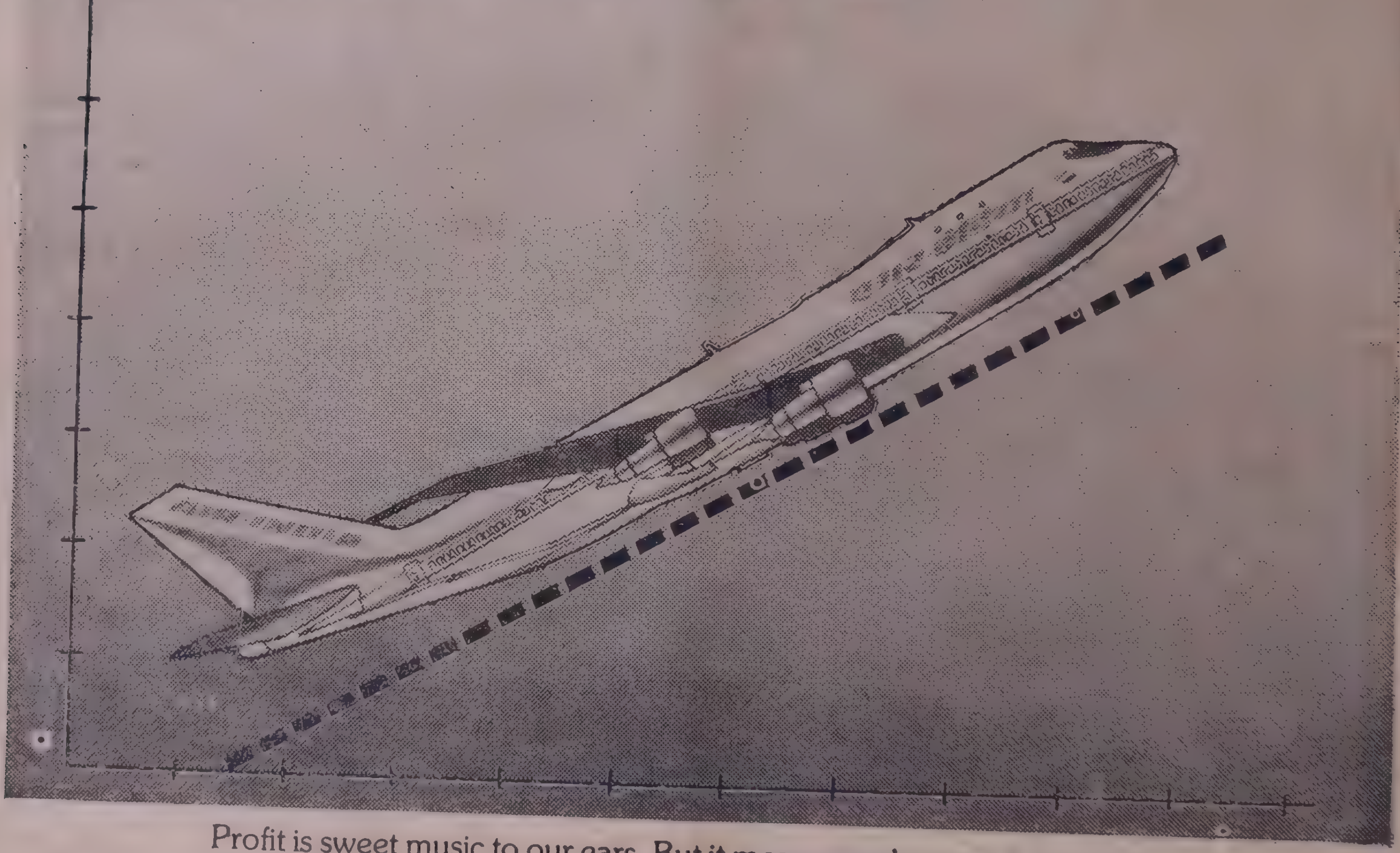
NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

---

* Professor S. K. Awasthi, teaches in the Allahabad University, Allahabad-211002.

While most airlines are in the red, Air-India is making a profit this year.



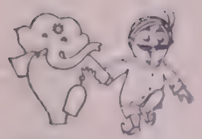
Profit is sweet music to our ears. But it means much more: it means that Air-India has succeeded in defying a global airline crisis and emerged triumphant.

It was no easy task and it meant a lot of shoulders to the wheel. Innovative ideas were implemented: to save fuel, optimise fleet utilisation and plan cost-efficient routes. Efficiency measures were stepped up at every stage of operation.

All this, without compromising the high standards of Air-India's service to the passenger.

Our efforts have borne fruit. This is a moment of satisfaction but not complacency. For the good work must go on.

The flag must fly higher.



Official Carrier
IXth Asian Games, Delhi 1982

एअर-इंडिया
AIR-INDIA
The flag is flying high

HTB-AIR-7800 R

Budget Imposts, together with Earlier Levies, will have Adverse Cascading Effect

By G. PRASAD, K. VIYYANNA RAO and V. CHANDRASEKHARA RAO *

CONTRARY to popular expectations, the budget presented by Mr Pranab Mukherjee on February 27 is disappointing. That even the ruling party members in the Parliament did not applaud the proposals of the Finance Minister itself is an indication of the grim features of the budget. Having recognised that the economy is now at a take-off stage due to the development of infrastructural facilities, increase in the agriculture and industrial production and the improvement in the investment climate, it is unfortunate that the Finance Minister has submitted such a budget with little incentives and with no strategy in the crucial third year of the Sixth Plan.

The Finance Minister has spelt out three main objectives that guided him in framing the budget: to avoid placing undue burdens on the low and middle income groups; to promote increases in savings and productivity; and to keep the budget deficit as low as possible. To try to reconcile these conflicting objectives, Mr. Mukherjee has attempted to raise resources mainly through indirect taxes and borrowings giving minor concessions to low and middle income groups and introducing some measures aimed directly at promoting increased savings and production.

Increase in the plan outlay for the year by a record 21 per cent over the previous year from Rs. 17,479 crores in 1981-82 to Rs. 21,137 crores in 1982-83, keeping the overall deficit as low as Rs 1,365 crores, increase in defence expenditure by Rs. 500 crores, introduction of two new savings schemes, marginal reliefs for low and middle income groups, non-resident Indians and exporters, imposition of additional levies Rs. 590 crores, incentives for increased production and introduction of dual pricing policy for cement are some of the highlights of central budget for the year 1982-83. In this paper, an attempt has been made to assess the impact of the various proposals of the finance minister in achieving the objectives spelt out by him.

Personal Taxation : In shaping the personal taxation proposals, the finance minister provided some marginal reliefs for the salaried employees in the low and middle income groups. In this connection, he sought to rise the standard deduction for salaried employees from 20 to 25 per cent without disturbing the ceiling of Rs. 5000. The encashment benefit in lieu of unavailed earned leave given to employees when they retire has been exempted from income tax. For boosting the house construction Mr. Mukherjee increased the standard deduction on self occupied houses from Rs. 1,800 to Rs. 3,600 and the deduction for the newly constructed let out residential houses from Rs. 2,400 to Rs. 3,600. In addition, he also exempted capital gains arising out of the transfer of assets, if invested in residential houses.

For increasing the long-term savings and for diverting the household savings into the corporrate sector, the Finance Minister announced several concessions. The deduction in respect of long-term savings under Section 80 C for life insurance premia, provident fund contributions, etc., has been increased. Under the proposed amendment, the quantum of deduction will be varied so as to allow a deduction of the whole of the first Rs. 6,000 of the qualifying savings, plus 50 per cent of the next Rs. 6,000 plus the 40 per cent of the remaining amount. There is also an increase in the qualifying amount from Rs. 30,000 to Rs. 40,000 and from Rs. 50,000 to Rs. 60,000 in case of artists, actors, musicians, etc.

The deduction for the income on the financial assets, like government securities, bank deposits, shares, etc., under section 80L has been increased to Rs. 4,000 from Rs. 3,000 at present, besides the exemption upto Rs. 3,000 on dividends from units of UTI, instead of Rs. 2,000 at present. The monetary limit for investment in the initial equity shares of new companies has been raised from the present level of Rs. 10,000 to Rs. 20,000. The Finance Minister also rationalised the taxation in respect of long-term capital gains depending upon the duration of asset held. Besides the proposals mentioned so far in personal taxation, the Finance Minister also increased the house rent allowance under Section 80 GG from Rs. 300 to Rs. 400 per month, changed the conditions for the determination of the residential status of the assesses living abroad, increased the ceiling of the value of investment in specified financial assets exempt from wealth Tax from Rs. 1,50,000 to Rs. 1,65,000 in addition to a separate exemption of units of UTI upto Rs. 35,000 as against Rs. 25,000 at present.

Though the proposals of the Finance Minister have provided some sops to the salaried tax payers, he failed to consider the impact of inflation on the fixed incomes of these people. At least he should have considered an increase in the exemption limit from the present Rs. 15,000 to Rs. 20,000. At a time when the Finance Minister is obliged to reduce the tax rates at higher slabs in order to reduce the tax evasion and the generation of black money, it is not known why he preferred an increase in the tax rates for the higher slabs.

Corporate Taxation: In the field of corporate taxation, the Finance Minister could not bring about any significant change in the proposals excepting the continuation of the Investment Allowance at the rate of 35 per cent granted in respect of machinery and plant manufactured in government laboratories, universities etc., for five more years; exemption from payment of income tax for 25 per cent of the profits for project exports, tax relief on incremental additions to export turnover and exemption to scheduled banks from interest tax on credit to exporters of plant and machinery and on foreign currency loans.

---

*Lecturers in the Department of Commerce and Business Administration, Nagarjuna University, Nagarjuna Nagar-522 510, A. P.

In contrast, the industry and experts on corporate taxation have anticipated many a change including the reduction in the tax level from 55 per cent to 50 per cent, removal of surcharge on corporate taxes, provision of free depreciation and concessions for raising finance through various sources like shares, debentures public deposits, commercial banks, etc. But surprisingly, not a single measure like this could find a place in the latest budget. Business circles have, therefore, expressed their disappointment over the absence of any noteworthy proposal regarding the industry.

No doubt, there are some good proposals in the budget for directing personal savings into corporate sector, directly or indirectly, like the increase in exemption level for investment income from units and shares, a higher ceiling for deduction of half the investment shares from the present Rs 10,000 to Rs. 20,000 per year and attractions to the non-resident Indians for investment in industrial equity. However, the finance minister failed to recognise the core problem faced by the industry in raising internal and external sources of finance. In the context of the role assigned to the corporate sector for massive industrial development of the country during the Sixth Five Year Plan, the measures incorporated in the budget by the Finance Minister relating to the corporate sector are totally inadequate.

During the Sixth Plan period, the investment in the organised private corporate sector has been placed at Rs. 13,182 crores. It is expected that the corporate sector would be able generate Rs. 8,870 crores from internal savings and the balance of Rs. 4,312 crores from external sources. It would thus appear that the investment required by the private corporate sector would be around Rs. 3,000 crores per annum in constant prices. If the investment made during the first two years of the plan period is of any indication, it may not be possible for the corporate sector to achieve the targeted growth rates incorporated in the Sixth Plan, unless certain corrective measures are taken for removing the constraints faced by the industry in raising internal and exernal source of funds.

In fact, the capital formation in the corporate sector, which was around 10 per cent during the fifties and early sixties, declined substantially and was even negative for some years in the seventies. Studies made by the Tata Economic Consultancy Services and National Institute of Public Finance and Policy also proved that capital formation in the private corporate sector had remained woefully stagnan since the mid-sixties. This stagnation in corporate investment was mainly attributable to low profitability and fall in the capacity of the corporate sector to raise funds from diverse internal and external sources.

For small-scale industries BIG-SCALE HELP at

UNION BANK

Rs. 132.81 crores disbursed over 20,047 accounts (Upto Dec. 1981). This is the kind of big-scale help we can give you! If you are an enterprising person going into small industry. Or if you wish to expand the business you already have. If you want help in purchasing machinery or raw materials, or in importing them.

If you are looking for expert guidance in marketing your products. Or even in accounting, e. g. book-keeping, preparing balance sheets, etc. and in other technical matters. In short........if you have ideas, and need finance to make them bear fruit.

Go to your nearest UNION BANK Branch

We help you help yourself

UNION BANK OF INDIA

(A Government of India Undertaking)

In the situation prevailing at present in the corporate sector, the Finance Minister should have considered the reduction in the corporate taxes, provision of free depreciation, increase in the interest rate on non-convertible debentures, relaxation of restrictions on the acceptance of public deposits, provision of adequate bank credit for the legitimate needs of the industry, and the measures for the rehabilitation of sick units. Even if these incentives are provided, the loss in revenue to the government due to the provision of these incentives at best may be around Rs. 150 crores. But the fruits of the measures can be reaped by the government over the years in the form of increased tax revenues owing to the rapid development of the industry. We hope the Finance Minister will consider all these measures after receiving the reports of the various Committees, viz., Working Group on the Finance for Industry consituted by the planning Commission; Working Group on the Creation of Secondary market for Debentures and Working Group on the Rehabilitation of Sick Units constituted by Reserve Bank of India.

New Savings Schemes: The Finance Minister has introduced two innovative schemes, viz., Social Security Certificate Scheme and Capital Investment Bonds Scheme, to attract more private savings for public use. The first scheme provides social security under which an individual in the age group of 18-45 can invest upto Rs. 5,000 which will triple in 10 years. While the interest rate is 7 per cent, free of income tax, the investment under these two schemes will also be exempted from Wealth Tax and upto Rs. 10 lakhs in the case of their first holder from Gift Tax. Though Mr. Mukherjee is fully optimistic over these schemes, the success of the second scheme is doubtful due to the unattractive interest rate.

Indirect Taxation: The Finance Minister imposed indirect taxes on a wide range of goods to the extent of Rs. 590 crores to reduce the overall of deficit of Rs. 2,085 crores in the budget. He increased the auxillary duty on all categories of imports by 5 per cent. Basic customs duty on a wide range of products including dye-stuffs, irons and steel, copper, pipes and tubes, polyster, zinc, lead, cement, has been increased. Excise duty on cement, video-casset recorders, etc., have also been enhanced. However, the Finance exempted some minor items like pencils, labratary glassware, thermos flasks from excise duty and ten bulk drugs from customs duty. The introduction of 'dual pricing policy' for cement is a welcome Step. The decision which was over due may put the industry on a sound footing may also end black marketing existing at present in this essential commodity. However, the budget proposals lave disappointed the recession facing industries like textiles and engineering units, as no Substantial relief in taxes has come.

In line with the decleration of the year 1982 as the 'productivity year' by the Prime Minister, the Finance Minister has announced a scheme of excise duty concession for selected industries. The scheme of excise duty concessions would be applicable for increased production during the 12 months period from March 1, 1982. The scheme would cover 38 tariff items including basic raw materials and other important industrial inputs and certain finished products. The benefits of the scheme would accrue only in cases where the production in the 12 months period referred to above exceeds 110 per cent of the production during the base period, namely, 12 months ending on February 28th, 1982 and the duty concession would be one-fifth of the total amount of the duty paid on the excessive production.

This is a move in the right direction, but it will come to nought if the government does not act promptly to remedy the situation in which demand in key areas remains depressed. But in the context of credit squeeze, curbs on financing of working capital due to the implementation of the recommendations of the Tandon and Chore Committees and restrictions on the acceptance of public deposits, the success of this scheme is doubtful. Secondly, when some key industries are facing recession, how this scheme benefits them remains to be seen. Further, as the scheme is applicable for short period, i. e., one year from March 1, 1982, the industries may not show enough interest and enthusiasm in expanding or creating the installed capacity and thereby increasing the production. Therefore, to reap the real benefits of the scheme, it should be extended at least for 5 years and the government should take all steps for removing the constraints faced by the industry in securing finance. Indeed, the Finance Minister deserves to be congratulated for giving protection to the domestic electronic industry and allowing the free trade zone units to sell 25 per cent of their production within the country on payment of appropriate duties.

Public Sector Pricing: It is sad to note that the Finance Minister has enhanced the postal rates exorbitantly. His predecessors used to increase the postal rates by around five paise, but Mr. Mukherjee established a record by increasing the rates by 15 to 20 paise at a stretch. True, the public sector pricing policy requires revision and the public sector enterprises should be allowed to earn reasonable rates of return. But the inefficiency of these units should not be concealed under the guise of pricing policy. The Finance Minister should have formulated a stategy enabling these units to earn at least a 10 per cent rate of return on the investment of over Rs. 20,000 crores made so far.

Cascading Effect: It has become a fashion in the recent years to impose different taxes throughout the year before the presentation of the budget, in order to avoid the sharp criticism from public. This year also, there has been a hike in the post and telegraph rates to net around Rs. 100 crores and in railway charges to net Rs. 581 crores. Therefore, one has to take into account the cascading effect of all these measures on prices. Though the top level officials in the ministry of finance and economic affairs maintain that the impact of new levies on price index will be small, if one takes into account the pre-budget levies, the additional duties imposed in the current budget, the overall deficit in the Union budget and several hundreds of crores of rupees of deficit in states budets, their claim may not hold good.

TODAY'S Rs. 7,440

GETS YOU Rs. 20,000*

Yes – It's possible

Canara Bank's new PLATINUM JUBILEE CASH CERTIFICATE SCHEME multiplies your money to nearly three times its value

Make time work at building you a fortune. Invest in Canara Bank's Platinum Jubilee Cash Certificates and get back almost thrice the money you deposit in ten years.

Choose from several cash certificates with different maturity values ranging from Rs. 100 onwards. And, remember, sooner you decide and invest, sooner will be your encashment.

For further details please contact our nearest Branch

CANARA BANK

(A Nationalised Bank)

Over 1350 Branches all over India.

* Subject to revision as per the Reserve Bank of India Regulations

Proposals to Boost Exports and Reduce Imports are Praiseworthy

By FRANCIS CHERUNILAM •

THE Union Budget for 1982 83 may be evaluated in the light of the important problems that demand fiscal solutions, programmes and sectors that require budgetary allocations, incentives or disincentives, and the environmental constraints. The factors that deserves consideration while evaluating the budget are :

1. Continuing inflation ;
2. Big foreign trade gap and the depletion of foreign exchange reserves;
3. Disturbing portents in the sphere of savings;
4. Infrastructural bottlenecks that, inspite of the improvements claimed to have made in the last two years, continue to plague the economy;
5. Investment and production targets, redistributional objectives; etc., of the Sixth Plan and the twenty point economic progarmme;
6. Inevitability of an escalation in the defence outlay; and
7. IMF conditionalities.

Though there has been a deceleration in the rate of price rise, it is still increasing at an annual rate close to two digits. Coming as it does on the top a combined 36 per cent increase in prices during the previous two years, the estimated rise of nearly 10 per cent is not a matter of relief. While on the one hand the new budget proposes certain marginal reliefs amounting to about 20 paise per head, in average terms, on the other hand the prebudget imposts and the budget proposals impose an additional burden of nearly Rs. 20 per head.

Upward adjustment of administered prices of a number of key commodities and services accounted for nearly one-third of the total increase in the WPI in 1980-81. There is no need of an IMF prescription to appreciate the prudence of a price policy that ensures sufficient revenue to cover the costs. But the average cost pricing or any other pricing policy that directly links price to the cost of production and supply will be realistic only when reasonable production or operational efficiency is attained. Hence it is but natural that the common man will be particularly sore at the hike in the post and telegraphic rates, railway fares, and tax escalations that make their consumption basket costlier when the tax on luxury hotels is removed, resulting in a revenue loss of about Rs. 6 crores.

If the supply position improves and the Government controls the money supply, the price situation can be prevented from further worsening. But then, there is the fear voiced by some that further tightening of credit could bring about a recession. Though there was an increase in the frequency of recessions and a narrowing down of the inter-recession gap in the last decade, and though some consumer durable industries are experiencing a substantial pile-up of inventories, the chances of a recession setting in during 1982 83 are very remote, unless there is a serious disaster. The sizable budget outlay, part of which is to be financed by created money, couid keep up the aggregate demand. However, reports from various States indicate that credit squeeze is affecting production and new productive investments. Hence, further tightening of credit may defeat the objective of achieving a substantial increase in production in the 'year of productivity', though it might not result in a recession. Thus, 'stability at what cost' becomes a very pertinent issue. This shows a Finance Minister's dilemma. When a measure can produce both negative and positive effects, the trade off is not easy.

Compared to other developing countries, the savings rate is fairly high in India. It is, however, quite distressing that in recent years, there has been a decline in the proportion of the income saved. The ratio of savings to NNP dropped from 19.5 per cent in 1978-79 to 17.1 per cent in 1979-80. It is held that as the run-away inflation has eroded people's capacity to save, the savings ratio might have further declined in the last two years. As the pre-budget *Economic Servey* has suggested, an objective of fiscal policy in the coming years must be to encourage further savings and to channel these to productive investment for increasing employment and growth in the economy. It is heartening that the Finance Minister has given considerable thought to this aspect. The Social Security Certificate which will triple its monetary value in 10 years and provide social security to the investor's family is quite an attractive proposition, especially for persons of small means. The higher income groups may think of mitigating the effects of the increase in income tax rates on higher slabs by investing in the proposed capital investment bond.

The trade deficit during 1981-82 has been estimated at over Rs. 5,000 crores compared to about Rs. 5,600 crores in the previous year. Though we had a balance of payments surplus of Rs. 370 crores in 1979-80, the year 1980-81 ended up with a deficit of Rs. 1,200 crores and this gap is likely to be wider in 1981-82. The foreign exchange reserves have declined to a low level.

The balance of payments problem would have been much worse but for the large invisible receipts, particularly the emigrant remittances. However, of late, the flow of inward remittances has not been encouraging. The quantum of inward remittances would have probably been much more than what it really has been if the investment in India were at least

---

• Faculty of Business Administration, University of Mysore, Manasagangotri, Mysore-570 006.

as remunerative as in a number of other countries. As Prof. P. R. Brahmananda points out, we have aggravated the balance of payments crisis by keeping domestic interest rates lower than foreign rates by nearly five percentage points.

Offering wider and more productive investment opportunities to expatriates is obviously a very effective measure to augment the receipts of invisibles. The budget proposes certain positive measures to encourage this inflow. The interest rates on new deposits of maturities of one year and above held in non-resident external accounts will carry interest of two per cent above the rates permissible on local deposits of comparable maturities. Gifts made in India out of deposits in these external accounts will be free from gift tax. The non-residents can also invest in the 12 per cent six year national savings certificates which, for them will be free from the wealth, income and gift taxes. Any investment without repatriation rights, made by non-residents of Indian origin, so long as it is not for transactions in commercial property and land, will be treated on the same footing as investments of resident Indian nationals. They will be allowed to invest with repatriation rights in any new existing company upto 40 per cent of the capital issued by such company. They can now purchase shares of companies quoted on the stock exchanges subject to specified limits. Facilities for investment in non-resident external accounts and in Indian companies, partnership firms, trusts, societies and other corporate bodies owned to the extent of at least 60 per cent, by non-residents of Indian origin.

The interest rate on deposits held in non-resident external accounts should have been raised further so as to equate it with the foreign rates. In 1981-82, Government granted export subsidies to the tune of Rs. 477 crores. Then, why don't the Government give sufficient incentives to the expatriates to induce them to contribute as much foreign exchange as they can to help the country to minimise the deficit in the balance of payments?

The budget also contains certain proposals to boost the exports. The reactions to this have been mixed. The President of the Federation of Indian Export Organisations is reported to have stated that 'the budget was for the first time export-oriented and accepted in principle that exports should be boosted through fiscal policy measures'. Some leading exporters, however, have expressed the fear that the incentives offered in the budget to boost exports may not be effective enough to bring about the desired results. The capability of the exporters to avail of the incentives and to boost exports will depend, among other things, on the sufficiency and efficiency of the inputs, including the infrastructure, available for export production. Exports suffering for want of exportable surplus have not been uncommon.

The facility allowed to the industrial units in the Free Trade Zone to offload upto 25 per cent of their production in the domestic tariff area on payment of duties would help to increase the domestic supply of certain items. This could also enable such units to take advantage of the incentives offered for higher production. It should, however, be ensured that such offloadings will not take place at the expense of the exports.

Last year, the POL imports have eaten away about 80 per cent of our total export earnings. Fertilizers and chemical products took away another about one-eighth of our export revenue. Thus, almost the whole of our export earnings are required to finance the import of POL and fertilizers and chemical products. Petroleum and petroleum products, fertilizers, steel, edible oils and non-ferrous metals account for nearly 60 per cent of our total imports. This clearly indicates some of the crucial areas we should concentrate on. And the budget does pay much attention to these sectors and to the infrastructure. For instance the outlay on oil including refineries and petro-chemicals has been stepped up by 90 per cent over 1981-82 and the outlay on power sector has gone-up by over 60 per cent. In short, it can be said that the budget makes some good efforts to bridge the trade gap in future by boosting exports and reducing import requirements.

The *Economic Survey* has noted with concern the increasing trend of the *capital — output ratio*. Achieving improvements in productivity while the capital-output ratio is rising is not an easy task. But there is no specific proposals in the budget to check the rising trend of the COR. As the *Economic Survey* has stated, cost escalations due to the delays in the implementation of projects has been an important reason for the high COR. There have been substantial delays in the implementation of projects even in the most critical areas such as power, fertilizers, steel, non-ferrous metals, paper, cement, etc. Such delays in the project implementation postpone the availability of additional supplies, add to the cost which increase the strain on the country's resources and lead to both cost-push and demand-pull inflation. Though the savings-investment ratio in India is quite high, measured by the standards of other developing countries, the growth in production has not been commensurate because of the increasing time lag between the financial expenditure and physical output from the projects. If this major problem is effectively solved, the supply situation will ease considerably, the demand-pull and cost-push inflation can be checked to some extent.

SOUTHERN ECONOMIST

BANKING NUMBER — APRIL 15, 1982

The issue of *Southern Economist* dated April 15 will contain our annual Banking Survey. It analyses banking developments in 1981 and contains articles on banking and allied topics.

Material intended for publication in the Banking Number may please be sent at the earliest.

The special issue will be priced Rs. 5 but the subscribers will get their copy in the usual course.

— PUBLISHER

Big Uncovered Deficit May Lead to Another Bout of Inflation

By RADHA RAMAN SINGH *

THE Union Budget, 1982-83, presented by the Finance Minister Mr. Pranab Mukherjee, on February 27, 1982, has been designed to be a saving and production oriented budget particularly in view of the fact that the Government has declared the current year as a productivity year. The budget proposals seem to be aimed at encouraging higher savings, investment and production in the economy and the Finance Minister has highlighted the fiscal strategy of the budget as an appropriate strategy to meet the objectives of maintaining the momentum of growth and preventing a rise in inflationary expectations. There is no doubt that the proposals announced will help maintain the trends towards stability and unassuming growth achieved during the previous financial year, but the budget contains no major surprises, pleasant or otherwise, the concessions and benefits given will have little impact on common mans budgets and greater dependence on indirect taxation, foreign assistance as well as the huge amount of uncovered deficit are sure to result in price rise and adversely affect the middle and lower class people.

The Plan outlays for the Centre, States and Union territories for 1982-83 have been fixed at Rs. 21,137 crores registering an increase of 21 per cent over Rs. 17,479 crores allocated in 1981-82. The central plan in 1982-83 accounts for Rs. 11,000 crores which is 27.6 per cent more than the previous year. The allocations for the states are also stepped up by 14.4 per cent over the previous allocations. Of the Central Plan's allocations, Rs.7,343 crores is the budgetary provision and Rs. 3,657 crores are to be met by internal resource generation particularly accruals from the public sector undertakings. When a closer analysis is made of the Central Plan allocations between 1980-81 and 1982-83, it comes to Rs. 27,498 crores as against planned Central Sixth Plan outlay of Rs. 48,900 crores at 1979-80 prices. This shows a poor utilisation of the plan allocations which, inturn, indicates that the progress of the plan is not satisfactory in respect of developmental activities.

In making sectoral allocations, emphasis has been laid on the rural uplift as enumerated in the new 20-point programme as well as the investment needs of the infrastructure sectors. In line with the Sixth Plan strategy, substantial increases in outlays are envisaged in crucial sectors of the economy. The highlights of the plan outlays are sizable increases in outlays for petroleum sector, irrigation, agriculture, coal, power and integrated rural development programme. Top priority has been given to the expansion of crude petroleum in 1982-83 with an outlay of Rs. 2,045 crores which represents a sharp increase of 90 per cent over 1981-82 budget outlay.

An anaylsis of receipts and spending proposals of the budget shows that out of the total receipts excise and customs will contribute 17 per cent each, 8 per cent will come from corporation tax, 2 per cent each from income tax and other taxes, 9 per cent from loan recoveries, 14 per cent from non-tax revenue, 20 per cent from market loans, capital investment, bonds, small savings, provident funds and special deposits of non-government provident funds, 5 per cent from external loans, 1 per cent from other receipts and remaining 5 per cent has been left as uncovered deficit.

On the expenditure front, 39 per cent of the total receipts will be spent on Sixth Plan Programmes and 19 per cent on other development activities, 17 per cent on defence, 13 per cent on interest payment, 4 per cent on statutory and other transfers to states and union territoris and 8 per cent on other expenditure items. A comparison of the receipts and expenditure provisions of the present budget with that of the previous year's budget shows that except for a few variations on the receipt side, the exercise is unexciting and repetition of the same trend. Customs, excise and market loans alongwith small savings etc. have shown an increase of 2 per cent each in their contribution over the 1981-82 budget purposals whereas corporation tax, loan recoveries and external loans have registered an increase of 1 per cent each. But the uncovered deficit has come down by 1 per cent in comparison to the previous years's budget. On the expenditure front, expenditure on other development activities has come down by 2 per cent whereas amount of statutory transfers to the States have gone up by 1 per cent over the previous budget.

In framing his tax proposals, the Finance Minister has kept in mind the objectives to keep the deficit at a low level, avoid undue burden on low and middle income groups and promote savings and productivity. For raising resources, the Finance Minister has placed greater reliance on indirect taxes and brrowings has given fewer concessions to the middle and lower class and has introduced a number of measures aimed at promoting increased savings and production. Among such measures, increase in permitted deductions from texable income in respect of life insurance and P. F. contributions, increase in ceiling for exemptions of income from investments in specified financial assets for purposes of wealth tax, doubling of the amount of investment of equity shares of new industrial companies and housing finance companies eligible for 50 per cent deduction from income tax, increase in the standard deductions of income-tax

---

* Dr. Radha Raman Singh teaches in the University Deptt. of Economics, Bihar University Muzaffarpur, (Bihar).

from 20 to 25 per cent are some of the welcome measures. The proposed excise duty concessions for 38 industries on production in excess of 110 per cent of their 1981-82 output, and the proposed reduction in income tax on export profits for exporters whose turnover in 1982-83 is in excess of 11 per cent of their turnover in the current year may be taken as an incentive for additional production next year. The 25 per cent tax exemption on profits derived by construction contractors undertaking projects outside India will not only provide an incentive for greater efforts but also strengthen the competitiveness of Indian construction bids.

The indirect taxes proposed in the budget are plainly aimed at increasing export potential and cutting down the non-essential imports. But the across—the—board 5 per cent increase in the rates of auxiliary duties on all categories of imports, expected to yield an additional revenue of Rs 290 crores, may have a ripple effect on the prices of wide variety of commodities.

The budget deficit of Rs. 1,365 crores is dangerously large though, in percentage terms, it comes only to 5 per cent of the total budgetary receipts as against 6 per cent in the previous year's budget. Taking into consideration the earlier increase in railway fares and freight rates and levies on postal and telecommunication facilities along with the proposed imposts, the total additional burden in one year will amount to about Rs. 1,300 crores. Yet the budget has left an uncovered deficit of Rs. 1,365 crores. The combined impact of the deficit, defence expenditure and fresh levies is bound to add to inflationary pressures. Thus, apart from a number of concessions and incentives for increasing savings, investments and production, the budget contains the seeds of further inflation. It does give a clear pattern of the growth in the crucial third year of the Sixth Plan.

BIG RISE IN POWER OUTPUT

The power sector has continued to maintain a high rate of growth. During the 11 months of the current financial year, April 1981 — February 1982, power generation recorded an increase of 10.8 per cent over the corresponding period last year, exceeding the target of 9.6 per cent fixed for 1981-82. During these 11 months, 112.13 billion units of power was produced as against 101.23 billion units produced during the same period last year, marking an increase of nearly 11 billion units.

Significant growth in power output was recorded in all the regions during the 11 month period. Northern Region recorded a growth of 10.1 per cent, Western Region 7.5 per cent, Southern Region 12 per cent and Eastern Region 16.4 per cent. Power output in North-Eastern Region recorded an increase of 30.7 per cent during this period.

Another notable achievement of the power sector has been a spectacutar increase in the output of thermal power. The thermal generation in the country went up by 14.5 per cent during the 11 months of the current financial year over the same period last year.

STATE BANK OF MYSORE

A Premier Bank of Karnataka

AN ASSOCIATE OF STATE BANK OF INDIA

Pioneers in Financing

SMALL SCALE INDUSTRIES & AGRICULTURE

With a net-work of more than 300 Branches in the State, we are committed to the growth and economic development of Karnataka.

Head Office :
Bangalore-560 009

P. S. SANTHANA KRISHNAN
Managing Director

New Levies Unlikely to Cause Setback to the Economy

By C. JOHN *

THE Indian economy has improved considerably as a result of the financial policy of the government and the successful crisis management during the last two years and by the effect of favourable monsoons on agricultural production. The gross national product at constant prices has grown further by 7.5 per cent during the year 1980-81 and is expected to grow further by 4 5 per cent during 1981-82. There is considerable improvement in the production of coal, power and iron and steel. In the movement of freight by the railways there is considerable progress. These devolpments in the infrastructure have their favourable impact on industrial development as a whole in the country. The rate of inflation has been brought down and this has falsified the prophesies of of some people that last year's budget would bring another bout of inflation.

The revenues of the government have increased on account of higher production and inspite of concessions in income tax announced by the last two budgets. Collections from income tax have increased considerably. So, there was very great optimism that this year's budget would bring further concessions in income tax, that there would be no additional taxes and that there would be only improvements in tax administration which would increase collections and prevent the growth of black money. Against this background, the budget announcements have been rather disappointing. There will not be the kind of favourable reaction that greeted last year's budget.

But on a close study of the budget proposals it will be found that there are definite concessions and conceete proposals to increase the savings of the community and to make them available for investment purposes. In the case of direct taxes, there is some income tax concessions for salaried people by raising the standard deduction to 25 per cent, though the benefit is slight as the ceiling for deduction continues to be Rs. 5,000. But in respect of long term savings, the amount eligible for 100 per cent deduction has been raised to Rs. 6,000 and this together with the higher limits allowed for actors, artists and soon will definitely encourage savings and investment. Similarly, the limit for specified investments like bank deposits, the incomes from which were exempted from income tax upto rupees 3,000 is raised to Rs. 4,000. In respect of income from units of the Unit Trust of India the exemption limit has been raised from Rs. 2,000/- to Rs. 3,000/-. The ceiling of exemption from wealth tax for these investments now add up to Rs. 2 lakhs. Similarly, the ceiling on exemption from income tax on ivestment in equity shares of new industrial companies has been raised to Rs. 20,000.

On the seamy side, the increases in income tax rates on higher income slabs while justifiable on the basis of equity, are not desirable as it has been found this time that lower income tax rates lead to better collection and higher rates will only engender more black money by encouraging tax evasion. The abolition of deduction of income tax at source from dividends and interest accruing to non-income tax paying people is a step in the right direction as it will reduce the unnecessary workload of the income tax offices in issuing refunds. There are also tax concessions to promote the construction of houses for residential purposes The changes in the computation of capital gains tax are also favourable for investment in house construction. For energy saving and environmental protection devices, depreciation of 30 per cent is allowed and this will foster economic growth.

Apart from the tax system there are other measures also that are being proposed now to increase savings and investments. To promote the use of private savings for public investment the government has decided to issue two new savings instruments. The social security certificate that is proposed to be introduced is specially useful for the small saver. Under this scheme an individual between the age of 18 and 46 can invest up to Rs. 5,000 which will be trebled up to Rs. 15,000 in ten years. The certificate will also provide social security for the family and in case of the investor's death, the nominee or the successor will get the full amount up to Rs. 15,000. The second instrumet is the capital investment bond which is also designed to attract private savings for public investment. These bonds with a maturity of 10 years and annual interest rate of 7 per cent free of income tax will be exempt from wealth tax and up to Rs. 10 lakhs is free from gift tax in the first instance. These tax concessions will make these bonds highly profitble for the wealthy people even though the interest is only 7 per cent.

Abolition of wealth tax on plantations is specially welcome at this juncture when the tea estates are in a very bad financial condition due to low tea prices. The abolition of the levy on gross earnings of luxury hotels will encourage them to develop the tourist industry and earn greater amounts of foreign exchange in the years to come. Thus the tax concessions are significant and they are likely to have a healthy effect on the economy and will bring about a certain amount of dynamism and remove the sluggishness in the growth of the economy.

When we consider the new taxes, particularly the increase in customs and excise duties, we find that they are bound to increase the prices of those materials and the

---

* Mr. John is Post Graduate Professor of Economics, Scott Christian College, Nagercoil-629 003.

final products very often by more than the amount of taxes paid. The total additional revenue from the new taxes are estimated to be 533 crores apart from the Rs.26 crores from the additions to postal rates, while the reliefs total Rs. 140 crores only. The small tax relief for additional exports, concessions etc. are all significant as they benefit certain classes of risky enterprises which have to be encouraged in the present context of the activities of Indian enterprises in West Asia and Africa. The reduction of excise duties on such consumer items like pencils, erasers, ball point pens, candles, thermosflasks, and water-coolers are important from the point of view of the common people.

Customs auxiliary duties are increased by 5 per cents on all items except crude oil and certain petroleum products. Duty on polyster chips is increased from 100 to 140 per cent. Duty on electronic items like computers are also increased. Superior variety of man made fabrics will attract excise duty of 7·5 per cent *ad valorem*. Polyster blended handloom fabrics are fully exempted from excise duty. The customs and excise duties mentioned above are justifiable only as revenue earning measures. It is not easy today to distinguish between luxury items and essential items becuse what is classified as luxury may be an essential item for an institution or for certain individuals.

The effect of all the additional duties have to be considered in the context of deficit financing proposed in the budged in order to estimate the inflationary impact of the budget. The total additional imports are about double the additional imports of last year. The deficit of Rs. 1,365 crores is actually less than last year's estimate of Rs. 1,539 crores and actual deficit of Rs. 1,703 crores in the revised estimate. Even assuming that the deficit will be equal to that of last year, there is no need to expect a higher rate of inflation than that of the year that has just ended.

The duty on cement may be regarded as likely to push up the cost of buildings. Effective excise duty on cement produced in small plants will be Rs. 100 per tonne. A basic excise duty of 10 per cent will be levied on imported cement. The Government is introducing a scheme of free sale of cement and a dual pricing policy. These are fully justified because at present most of the genuine consumers have to buy cement in the black market paying thrice the controlled price or alternatively suffer inordinate and costly delays in the completion of their buildings and very often have to make extra payments on account of corruption. The taxes imposed are comparatively small. If dual pricing is followed and the government procures only the cement that it needs at controlled price, the factories will be able to make good profit by selling a substantial portion in the open market at prices higher than the controlled price but much lower than the present black market rates. When they are able to make profit, there will be incentive to produce more and since infrastructural problems are being solved shortages may become a thing of the past. Thus, the dual price policy for cement will be good for the economic development of the country.

With best compliments from :

SANDUR MANGANESE & IRON ORES LIMITED

'Lohadri Bhavan'
YESHWANTNAGAR-583 124
Via - Sandur : : Bellary District
Karnataka

1982-83 Budget Speech of Union Finance Minister, Mr. Pranab Mukherjee — Part ‘A’

Sir,

I rise to present the Budget for the year 1982-83.

The Economic Survey for 1981-82, placed before the House a few days ago, gives a detailed review of the current trends in the economy. I shall, therefore, touch upon only a few important aspects of the economic situation which have influenced the formulation of this year's Budget.

As the House is aware, when the present Government came into office a little over two years ago, the country was faced with a serious and deteriorating economic situation. Gross National Product had declined by as much as 4.8 per cent in 1979-80, the infrastructure was in a shambles, and prices had increased at an annual rate of 23.3 per cent by the end of January, 1980. It was against this background that, while presenting the regular Budget for 1980-81, my distinguished predecessor had informed the House that an important task before the Government was to arrest the deterioration in the economic situation and to set the economy on the path of stability and growth.

I am glad to say that we have gone a long way in achieving these objectives. Our Gross National Product in real terms increased by 7.5 per cent in 1981-82, and is expected to grow further by 4.5 per cent in 1981-82. The infrastructure is functioning well. Inflation is being controlled. Production of foodgrains is likely to reach a new peak this year. The industrial sector will record a growth of 8 per cent.

The fight against inflation has been a high priority of the Government. Any slackening of effort on this front would have undermined the very basis of our development. Inflation hurts all sections of the community, but it hurts the weaker and poorer sections the most. Inflation also hurts the development process as investment costs get distorted, and financing becomes an increasingly severe problem. It is, therefore, a matter of satisfaction that we have succeeded in bringing down the rate of inflation substantially.

At the end of January, 1982, the annual rate of inflation on a point-to-point basis was only 4.9 per cent as against 15.9 per cent at the end of January, 1981 and 23.3 per cent at the end of January, 1980 when the present Government took over. The deceleration in the wholesale prices has occurred in a wide range of commodities, and is being gradually reflected in the consumer price index.

However, the price situation requires constant vigilance, and there can be no room for complacency. The international price situation continues to be uncertain. At home, a drought or the failure of a major crop may well upset the demand and supply balance. We must continue our efforts to increase the supplies of agricultural and industrial commodities and also restrain the growth of aggregate demand. At the same time, we must ensure that anti-social elements do not disrupt supplies and the distribution net-work.

As I mentioned before, foodgrains production is likely to reach a new peak in the current year. The kharif foodgrains production is estimated at around 80 million tonnes as against 77.4 million tonnes in 1980-81, and the prospects of rabi crop are good. Sugarcane production is likely to increase substantially and sugar production should reach a record level of over 67 lakh tonnes. Groundnut production may be 20 to 25 per cent higher than in the last year. Significant increases are also expected in cotton and jute.

The sustained good performance in agriculture is testimony to the hard work of our farmers, agricultural scientists, and extension workers. It also underscores the basic soundness of our agricultural strategy, which has emphasised creation of irrigation potential, greater fertiliser use, spread of high-yielding varieties of seeds, and remunerative price support policies.

Industrial production, which had declined by 1.4 per cent in 1979-80, recorded an increase of 4 per cent in 1980-81. In 1981-82, the growth rate will be twice as high. A large number of industries such as petroleum and petroleum products, fertilisers, steel, cement, vanaspati, sugar, newsprint, caustic soda, wagons and commercial vehicles, are expected to achieve new peak levels of production during the year. The increase in industrial production has been sustained by the concerted action taken by the Government to improve the performance of infrastructure sectors. In the current financial year, upto January, power generation has increased by 11.3 per cent. Coal production in the last two years has increased by over 17 million tonnes, and the target of 121 million tonnes for 1981-82 is likely to be exceeded. In railways, the previous record in freight loading will be surpassed and the revenue earning traffic is expected to go up to 165 billion tonne kilometres. This has been made possible by improvement in operational efficiency as evidenced, for example, by the significant reduction in the wagon turn-round time during the year.

Monetary and credit policies during the year continued to emphasise the requirements of meeting the credit needs for higher production, particularly in the priority sectors, while restraining the growth of aggregate demand. In order to restrain the growth of liquidity in the system, the cash reserve ratio was increased in phases from 6 to 8 per cent, and the

---

* Presented to Parliament on February 27, 1982.

statutory liquidity ratio was raised from 34 to 35 per cent. The Bank Rate was increased from 9 to 10 per cent and refinancing rates of the RBI were also raised. Even so, the growth of bank credit to the commercial sector during the year 1981-82 is likely to be of the order of 19 per cent which should be adequate to meet the legitimate credit requirements of productive sectors.

Hon'ble Members will be happy to note that the operation of our public sector banks has been further oriented towards extending banking facilities to underbanked rural and semi-urban areas, and enlarging the flow of credit to priority sectors particularly the weaker sections of society. During January - November, 1981, 2517 new branches were opened by commercial banks of which 2269 were in rural and semi-urban areas. During 1981, 22 regional rural banks were added to 85 such banks as at the end of 1980. The priority sectors now account for about 36 per cent of the aggregate bank credit as compared to about 33 per cent in 1979. The target to be achieved by March, 1985 is 40 per cent. The differential rate of interest scheme has been effectively implemented and the target of 1 per cent of aggregate credit for this scheme is being achieved by public sector banks. The National Bank for Agricultural and Rural Development is expected to start functioning within the next few months. I am also pleased to inform the House that the Export Import Bank of India has been established with effect from 1st January, 1982.

I would now like to refer to the balance of payments situation. As the House is aware, there has been a substantial deterioration in our balance of payments since 1979-80 primarily because of sharp increases in import prices, particularly of oil and oil products. Anticipating these developments, the Government made timely arrangements to negotiate a line of credit for SDR 5 billion from the International Monetary Fund under its Extended Fund Facility. This was necessary to avoid the disruption of our economy for want of essential imports and to gain time for readjustment to the new situation. This line of credit has been accepted in order to support an adjustment programme drawn from our strategy of planned development. It will help us to implement our own policies which have been sanctioned and approved by our people and Parliament.

The main elements of the Government's strategy for restoring the viability of our balance of payments in the coming years are: first and foremost, an increase in the domestic production of petroleum and petroleum products, fertilisers, steel, edible oils and non-ferrous metals. These account for nearly 60 per cent of our total imports. The Government has taken necessary action to step up production and investment in these and other critical areas.

We must also intensify our efforts at expanding the export base and creating conditions conducive to larger exports. Exports have increased by 15.4 per cent during the first 8 months of the financial year, which is encouraging. However, in several areas, particularly in our traditional exports, such as textile fabrics, jute and tea, we are facing unfavourable world market conditions. While sustaining exports of these and other traditional commodities, much greater effort is now needed to expand those exports for which world markets are growing. In recent years, our receipts from invisibles, particularly from remittances by non-residents of Indian origin, have shown a healthy growth. This has been a stabilising factor in our balance of payments, and we must continue to provide adequate facilities for growth of receipts from this source.

The past two years have been years of crisis management and recovery. It is a measure of our success that the economy is now back on the rails. This provides us an opportunity to initiate further efforts for moving the economy forward and to achieve the necessary medium term adjustment. The objective of policy in 1982-83 will be to maintain the momentum of growth and to make an all out effort to achieve the social and economic objectives of the Sixth Plan. This would call for larger investments, and a relentless pursuit of goals of higher productivity, efficiency and reduction in disparities. This is the message of the revised 20-Point Programme. The Programme identifies the areas of special thrust in which there must be no compromise on performance.

The tasks that lie ahead are not easy. Hon'ble Members are well aware of the evolving geo-political situation in our region and the difficult environment in which we are functioning. While we strive to resolve the situation in a spirit of goodwill, we have to take all necessary steps to safeguard the security of the nation. This burden, which is not of our seeking, will involve sacrifices on the part of our people.

In the international economic sphere, there is a rising trend towards protectionism which inhibits access to markets abroad. The environment for economic co-operation has also deteriorated, and the flow of concessional resources is likely to be less than envisaged earlier. In concert with other developing countries, we must continue to press for reforms in the international economic order and to reverse these disquieting trends. However, prudent management of the economy requires that due account is taken of the present international situation in devising our economic policies.

The investment requirements of the economy are large and brook no delay. It is essential that we now make a determined effort to mobilise more resources for investment. Maintenance of a non-inflationary environment requires that additional resource mobilisation represents real savings in the economy. However, adequate resources for further investment in new capacities will not be forthcoming unless we also take action to utilise the existing capacities fully. I am sure that this House will share my hope that all sections of the community would do their utmost to make this Year of Productivity a success. On its part, the Government would endeavour to provide due encouragement to promote this objective.

Mobilisation of resources in a non-inflationary way must be a multi pronged effort. It is necessary to make appropriate adjustments in taxation and to ensure better tax collection. The pernicious growth of black money in the economy has been a major source of concern to the Government and Parliament. Various economic offences have seriously eroded our development efforts. In the past, we took a series of measures to fight against this menace. Unfortunately, this thrust was diluted during the period when we were out of office. I can assure the Hon'ble Members that our commitment to eradicate all economic offences is firm and uncompromising. I am taking steps to ensure that the provisions of law are applied vigorously and effectively to combat economic offences.

We must also continue to adjust administered prices in line with economic costs. Uneconomic pricing policies in the public sector and in high priority industries result in erosion of resources for further investment and lead to malpractices by unscrupulous traders. Price adjustments carried out in the last two years have amply demonstrated the important role of appropriate pricing policies in ensuring viable operations, generating additional resources and reducing the scope for generation of black money.

One of the strengths of our economy is the fairly high rate of savings. Most of these savings occur in the household sector. We need to ensure that savers have an adequate incentive to hold their savings in financial instruments. This could play a significant role in providing more resources for investment. Over the past two years, several steps have been taken in this direction. This thrust should continue.

In order to mobilise private savings for public use, the Government has decided to issue two new savings instruments. The first is a Social Security Certificate which has been specially designed for the small savers. Under this scheme, an individual between the age of 18 and 45 can invest up to Rs. 5,000, which will triple in 10 years. The certificate will also provide social security to his family. In the case of the investor's demise, his nominee or legal heir will become immediately entitled to the full maturity value of the certificate. The details of the scheme will be announced separately. I trust that this National Savings instrument will prove particularly attractive to large numbers in rural areas, and persons of small means everywhere.

The second instrument is the Capital Investment Bond which is designed to attract a larger flow of private savings for public sector investment. These bonds will have a maturity of ten years and carry an interest rate of 7 per cent, free of income-tax. They will also be exempt from wealth tax, and upto Rs. 10 lakhs in the case of their first holder, from gift tax. Purchasers will have to duly account for these investments.

The rate of savings that we have been able to achieve is a tribute to the habits of thrift and good sense of our people. I have no doubt that they will take full advantage of the new opportunities and incentives that are being given to promote savings.

Remittances are an important source of foreign exchange for the country. They are also a manifestation of the close cultural and family ties that exist between the people of this country and the people of Indian origin abroad. In order to further encourage the flow of funds from this source, it has been decided to improve the facilities available to non-residents.

Any investment, without repatriation rights, made by non-residents of Indian origin, so long as it is not for transactions in commercial property and land, will be treated on the same footing as investments of resident Indian nationals. They will be allowed to invest, with repatriation rights, in any new or existing company up to 40 per cent of the capital issued by such company. They can now purchase shares of companies quoted on the stock exchanges subject to specified limits. The interest rates on new deposits of maturities of one year and above held in non-resident external accounts will carry interest of 2 per cent above the rates permissible on local deposits of comparable maturities. Gifts made in India out of deposits in these external accounts will be free from gift tax. The non-residents can also invest in the 12 per cent 6-year national savings certificates which, for them, will be free from wealth, income and gift taxes. Facilities for investment in non-resident external accounts and in Indian companies will be extended to companies, partnership firms, trusts, societies and other corporate bodies owned, to the extent of at least 60 per cent, by non-residents of Indian origin.

I shall now turn to the Revised estimates for 1981-82 and the Budget estimates for 1982-83.

Revised Estimates for 1981-82

I am happy to inform the House that there has been an all round improvement in revenue receipts during 1981-82. It is gratifying that despite significant tax concessions given in 1981-82 Budget, the receipts from income-tax are likely to be Rs. 1,520 crores as against the Budget estimates of Rs. 1,444 crores. Similarly, the receipts from corporation tax are likely to go up from Rs. 1,690 crores in Budget estimates to Rs. 1,962 crores in the Revised estimates. This increase is due to higher profits accruing to Oil and Natural Gas Commission and Oil India following the increase in the prices of crude effected last July. The receipts from customs duties are also expected to go up from the Budget estimates of Rs. 3,833 crores to Rs. 4,140 crores in the Revised estimates.

As regards Union excise duties, the House will be happy to note that they are expected to go up from Rs. 7,117 crores to Rs. 7,501 crores i.e. Rs. 384 crores more. This is clearly indicative of the marked growth in industrial production in the current year. The gross tax revenues are now estimated to be Rs. 15,754 crores compared with Rs. 14,668 crores in the Budget estimates. After deducting the States' share of various taxes, net tax revenue of the Centre is estimated to be Rs.943 crores more than the Budget estimate of Rs. 10,537 crores.

Non-tax revenues and capital receipts are also estimated to show an improvement of Rs. 579 crores over the Budget estimate of Rs. 12,795 crores. Market borrowings and small savings collections would be higher by Rs. 100 crores and Rs. 50 crores, respectively. The receipt from Special Bearer Bonds amounted to Rs. 875

crores in the current year against the Budget estimate of Rs. 800 crores. In addition to these receipts, there would be an increase of Rs. 200 crores in the recoveries of ways and means advances from State Governments' and of Rs. 117 crores in recoveries of technical credits under rupee trade agreements.

On the expenditure side, total budget support for the Plan is estimated to go up to Rs. 10,394 crores as against Budget estimates of Rs. 9,771 crores. The Central assistance for state and Union Territory Plans, including the programmes of Rural Electrification Corporation, is being stepped up by .Rs. 156 crores A large part of this increase is on account of higher advance Plan assistance to those States which have suffered from drought.

In the Central Plan, outlays for railways and coal have been increased by Rs.157 crores and Rs. 105 crores respectively. Considering the growing pace of disbursements of Agricultural Refinance and Development Corporation, Industrial Development Bank of India and other financial institutions, additional Plan support of Rs. 389 crores is being provided to them in the current year. In view of the erosion in the internal resources of the Posts and Telegraphs Department, a higher budgetary support of Rs. 173 crores is being provided. On the other hand, shortfalls are anticipated in Plan expenditure in certain other sectors. On the whole, the budgetary support for the Central Plan is estimated to go up by Rs. 467 crores in the Revised estimates.

The Budget estimates provided for non-Plan expenditure of Rs. 15,100 crores. This expenditure will also be higher in the current year due to several reasons. The provision for defence expenditure is being increased from Rs. 4,200 crores to Rs. 4,600 crores. Similarly, the provision for non-Plan loans to State Governments is being increased from Rs. 1,296 crores to Rs. 1,591 crores. This is mainly due to larger share of States out of collections from national small savings, and higher ways and means advances which, of course, are being recovered during the course of the year itself. The provision for food subsidy is being increased from Rs. 650 crores to Rs. 700 crores, subsidy on controlled and handloom cloth from Rs. 106 crores to Rs 172 crores and the provision for cash compensatory support and market development for exports from Rs. 390 crores to Rs. 477 crores. Provision for technical credits under rupee trade agreements has also to be increased from Rs 50 crores to Rs. 175 crores. A provision of Rs. 91 crores has been made in the Revised estimates for contributing India's share to the increased capital of the International Bank for Reconstruction and Development. Taking these and other variations into account, non-Plan expenditure in the Revised estimates is placed at Rs. 16,160 crores.

The total expenditure is estimated to be Rs. 26,554 crores in the Revised estimates compared with Rs. 24,871 crores in the Budget estimates. As against this, the total receipts are now estimated at Rs. 24,854 crores compared with Budget estimate of Rs. 23,332 crores. Thus, the current year is expectsd to close with a deficit of Rs. 1,700 crores, against the Budget estimate of Rs 1,539 crores.

Budget Estimates for 1982-83

The Budget estimates for 1982-83 would show that I have given the highest priority to increasing the Plan outlay. The improvement in the economic situation in the last two years gives us an opportunity to make a major thrust towards achieving the goals of the Sixth Plan. I am providing for an outlay of Rs. 11,000 crores for the Central Plan in 1982-83. In making sectoral allocations, I have tried to emphasise the programmes for the uplift of the poor as enumerated in our 20-Point Programme as well as the investment needs of the infrastructure sectors.

The next year's Central Plan represents an increase of 27.6 per cent over the Plan outlay of Rs. 8,619 crores in the 1981-82 Budget estimates. This, Hon'ble Members will no doubt appreciate, is a very large increase considering, particularly, the commitments needed for safeguarding national security.

The Central Plan will be financed by a budgetary support of Rs. 7,343 crores and internal and extra-budgetary resources of Rs. 3,657 crores. The internal and extra-budgetary resources of public sector enterprises would thus account for 33.2 per cent of the Plan outlay as against 26.8 per cent in the previous year.

The total of Plan outlays for 1982-83 of the States and Union Territories, including a provisional outlay for West Bengal, is placed at Rs. 10,137 crores. This represents an increase of 14.4 per cent over the outlay of Rs. 8,860 crores in 1981-82. Central assistance for the Plan of the States and the Union Territories will be Rs. 4,002 crores compared with Rs. 3,462 crores in Budget estimates for 1981-82. Taken together, the Plan outlays of the Centre, States and the Union Territories for 1982-83 will be Rs. 21,137 crores, an increase of 21 per cent, over Rs. 17,479 crores in 1981-82.

In line with the Sixth Plan strategy, substantial increases in outlays are envisaged in crucial sectors of the economy. In respect of crude petroleum, there has already been a substantial expansion of output in the current year. With a view to sustaining the tempo of increased production, the outlay for this sector, including refineries and petro-chemicals, has been fixed at Rs. 2,045 crores for 1982-83, which represents an increase of 90 per cent over the current year. The outlay for coal is being increased to Rs. 877 crores as against Rs. 578 crores in 1981-82, an increase of 52 per cent. In the power sector, the outlay in the Central Plan is Rs. 929 crores compared with Rs. 721 crores in 1981-82. Taken together, the outlay for the energy sector, is 62 per cent higher than the current year, and constitutes 34 per cent of the Central Plan outlay.

The new Central power projects include installation of additional capacity of 1000 MW each at the Korba and Ramagundum super-thermal power stations. The total outlay for the power sector in the State and Central Plans taken together is Rs. 3,977 crores compared with Rs. 3,326 crores in 1981-82. Additional generating capacity of 3500 MW is expected to be commissioned during 1982-83.

The revised 20-Point Programme calls for intensified effort in a number of areas, which are vital for the development of the economy and for the welfare of our people, especially the weaker sections of the society. Effective implementation of this programme will be a step forward towards the realisation of our goal of social justice. This will call for concerted effort at all levels. In 1982–83, higher outlays have been provided for several areas emphasised in the 20-Point Programme:

— a provision of Rs. 2,133 crores has been made for irrigation and Command Area Development in the Central and State Plans as against a provision of Rs. 1,830 crores in 1981–82;

— the outlay for agriculture in the Central and State Plans has been raised to Rs. 1,202 crores from Rs. 1,047 crores in 1981-82, including provisions for pulses, oil seeds and dry land farming;

— a provision of Rs. 190 crores has been made for the Integrated Rural Development Programme in the Central sector compared with Rs. 145 crores in 1981-82, an increrase of 31 per cent. This would be matched by an equivalent provision by the States. Each block will receive Rs. 8 lakhs compared with Rs. 6 lakhs 1981-82. With this provision more than three million rural families are expected to be assisted in 1982-83;

— the provision in the Central Plan for the National Rural Employment Programme is also being increased to Rs. 190 crores. This amount too is to be matched by an equal provision by the States. This programme is expected to generate employment of about 350 million man-days in rural areas besides creating durable community assets;

— Central assistance for the Special Component Plans for Scheduled Castes has been raised to Rs. 120 crores from Rs. 110 crores in 1981-82. This will be supplemented by a Central investment of Rs. 13.5 crores in the Scheduled Castes Development Corporations, with a contribution of the same order by the States. The Tribal Sub-Plan will also have a higher outlay of Rs. 95 crores in 1982-83;

— the outlay for the Centrally sponsored Accelerated Rural water Supply Programme is being increased to Rs. 127.5 crores to supplement the State Plan outlay of Rs. 273 crores. This will cover an estimated 45,000 problem villages;

— a provision of Rs. 74 crores is being made for house sites for rural landless persons and Rs. 29 crores are being provided for environmental improvement of slums in the State Plans;

— an outlay of Rs. 354 crores is planned for rural electrification. About 25,000 villages will be electrified and 4.25 lakh pumpsets energised in 1982-83;

— a provision of Rs. 5 crores has been made to facilitate setting up of 75,00 biogas plants, compared with 35,000 in 1981-82. Likewise, the Social Forestry Scheme is being expanded to cover 4 lakh hectares in 1982-83. Apart from providing much needed fuel wood, these afforestation programmes would help prevent soil erosion and restore the ecological balance;

— the outlay for family planning is being increased to Rs. 245 crores compared with Rs. 155 crores in 1981-82. In view of the crucial role which village health guides can play in the family planning movement, the Centre has decided to fund the Village Health Guide Scheme fully;

— a provision of Rs. 120 crores has been made in the Central Plan for health care. This will substantially augment universal primary health care facilities, and accelerate national programmes for control of leprosy, T.B. and blindness, with special emphasis on early detection and treatment. A provision of Rs.82 crores has been made in the Minimum Needs Programme of the States for expanding rural health services;

— programmes for welfare of women would have an outlay of about Rs. 16 crores in the Central Plan which would augment the State Plan provisions. Special importance is being given to the programme of functional literacy for adult wowen for which a provision of Rs. 4.6 crores is being made asagainst Rs. 3 crores in 1981-82;

— the Integrated Child Development Services Programme is being expanded to 1000 projects by the end of the current Plan as against the earlier target of 600 projects. An additional 320 projects are proposed to be taken up in 1982 83;

— for the Adult Education Programme, the Central Plan provides an outlay of Rs. 14.25 crores in 1982-83. Major part of this expenditure is for the Rural Functional Literacy Project. In 1982-83, it is proposed to establish such projects in 75 additional districts;

— the outlay for the development of village and small industries has been raised to Rs. 340 crores in the Central and State Plans as against Rs. 315 crores in 1981-82.

The Central asssistance for development of hill areas has been raised to Rs. 112 crores as against Rs. 92 crores in 1981-82. The Government has also recently extended to all hill areas the liberalised pattern of Central assistance comprising 90 per cent grant and 10 per cent loan.

The Central Plan outlay for the transport sector, including railways, roads, ports and civil aviation is being stepped up to Rs. 1,757 crores from Rs. 1,535 crores in 1981-82. My colleague, the Minister for Railways has already informed the House about the Railways Plan for 1982-83. In order to remove congestion at ports, an intensive modernisation programme, including augmentation of container handling facilities and construction of additional berths, is being implemented.

A provision of Rs. 480 crores has been made in the Plan for 1982-83 for the various programmes of the Departments of Heavy Industry and Industrial Development, including Rs. 97 crores for the Khadi and Village Industries Commission. This also includes Rs. 84 crores for the three large paper projects at Tuli in Nagaland, and at Nowgong and Cachar in Assam. Hon'ble Members would be happy to know that the Nagaland Paper Project will be going into production shortly.

Work on three public sector cement projects will be started in 1982 83. The total installed capacity for cement in the country is expected to go upto 38 million tonnes in 1982-83 as against 32 million tonnes in 1981-82.

The Plan outlay for steel for 1982-83 is Rs 860 crores. This includes a provision of Rs. 250 crores for the Visakhapatnam Steel Plant. The first phase of 1.2 million tonnes capacity is expected to be completed by the end of 1985. The work of establishing transport and raw material linkages for the Vijayanagar Steel Plant project is on hand. The Plan also includes an outlay of Rs. 140 crores for the Orissa Aluminium Project.

For the chemicals and fertilisers sector, Rs. 507 crores have been provided, including Rs 210 crores for the Thal-Vaishet project and Rs. 120 crores for the Hazira project.

The successful launching of satellites in 1981 bears testimony to the dramatic strides made by our country in space technology. As part of the space programme, the APPLE space craft was launched in June, 1981. This is being utilised for various experiments, such as national Television and Radio hook-up, digital communication, inter connection of computers and subscriber trunk dialling. A major objective of the Government is to harness science and technology to bring about social and economic change. An outlay of Rs. 184 crores has been provided for the Science and Technology sector in the Central Plan for 1982 83.

The Government attaches special importance to renewable energy sources. The Commission for Additional Sources of Energy has initiated several important R & D and demonstration projects in the areas of solar thermal, photovoltaic, wind, biomass and integrated energy systems. The Government has exempted the manufacture of solar energy devices from industrial licensing

A notable achievement has been the successful expedition to Antarctica by our scientists. Following the collection of poly-metallic nodules from the sea bed for the first time by our ships last year, it is proposed to undertake a detailed survey in the Indian Ocean. An allocation of Rs. 17 crores has been included in the plan of the Science and Technology sector for the recently created Department of Ocean Development.

While I have tried to contain non-Plan expenditure for the next year, certain increases have been unavoidable. Defence expenditure is estimated at Rs. 5,100 crores as against Rs. 4,600 crores in the Revised estimates for the current year. Hon'ble Members will, I am sure, agree with me that in view of the uncertain external environment, the requirements of national defence should be fully met.

The provision for non-Plan loans to State Governments including ways and means ahvances is estimated at Rs. 1,732 crores as against Rs. 1,591 crores in 1981-82. Due to increase in internal and external debt, which is utillised for funding development progrommes, the provision for interest will go up from Rs. 3,200 crores in the Revised estimates to Rs. 3,800 crores in 1982-83. The provision for subsidies on account of food, fertilisers, and controlled and handloom cloth is Rs. 1,270 crores. A provision of Rs. 500 crores has been made for cash compensatory support and market development assistance for exports.

I am also providing a lump sum of Rs. 350 crores in 1982-83 for payment of additional instalments of dearness allowance and pension relief to Central Government employees. The Government has received representation from pensioners that they should be given some relief in view of the rise in prices. In the Budget last year, my distinguished predecessor had announced some benefits to pensioners. I now propose to give further relief especially at the lower levels of pension. The minimum amount of pension plus relief will be increased to Rs. 150 per month. The minimun amount of family pension puls relief will also be increased to Rs. 140 per month. These measures will benefit about 7 lakh low paid pensioners, and 2 lakh family pensioners. I would like to add that about 85 per cent of the former category are retired Defence personnel. The House will agree with me that those who have devoted the best years of their lives to the defence of the country are deserving of whatever support we con give them.

The total non-plan expenditure for 1982-83 is estimated at Rs. 17,874 crores as against Rs. 16,160 crores in the Revised estimates for 1981-82.

As regards receipts in 1982-83 the gross tax revenues at the existing rates of taxation are estimated at Rs. 17,614 crores compared with Rs. 15,754 crores in the Revised estimates. The States, share of taxes in 1982-83 is estimated at Rs. 4,716 crores compared with Rs. 4,274 crores in the current year. The Centre's net tax revenue will, therefore, be Rs. 12,898 crores as against Rs. 11,480 crores in the current year.

The receipts from market loans are estimated at Rs. 3,200 crores compared with Rs. 2,900 crores in 1981-82. Small savings are estimated to yield Rs. 1,400 crores as against Rs. 1,300 crores in the Revised estimates. External assistance, net of loan repayments is estimated at Rs. 1,669 crores as against Rs. 1,381 crores in 1981-82.

Taking into account these and other improvements in non-tax revenues and capital receipts, as well as the effect of changes in fare and freight rates of the Railways, and in the Posts and Telegraphs tariff to which I shall refer a little later, the total receipts for 1982-83 are estimated at Rs. 27,134 crores. The total expenditure is placed at Rs. 29,219 crores. The overall budgetary gap at the existing rates of taxation will thus be Rs. 2,085 crores.

Subscribe to :

SOUTHERN ECONOMIST

106-108, Infantry Road,
Bangalore-560 001

Subscription Rate :

Rs. 50 per annum

(*Foreign :* 15 Dollars)
surface mail

1982-83 Budget Speech of Union Finance Minister, Mr. Pranab Mukherjee — Part 'B'

Sir, before I present my tax proposals, I would like to indicate the broad objectives I have kept in view. While we take comfort in our success in reducing inflation, it is of the utmost importance that the Budget itself should not give rise to further inflationary expectations. Any large uncovered deficit beyond prudent limits is inherently inflationary. It also gives rise to adverse expectations with regard to the behaviour of prices. It is therefore my major concern to keep the budgetary deficit as low as feasible.

Another important objective is to avoid measures which would place undue burdens on the low income and middle income groups. These groups are the worst sufferers in times of inflation.

As I have already indicated, providing adequate incentives for increasing production and savings in the economy is a prime objective of this Budget. Larger savings and increases in productivity can significantly help moderate inflationary pressures and also generate resources for development. The buoyancy in revenue and the decline in the rate of inflation in the environment of strong agricultural and industrial growth in 1981-82 confirm this.

Sir, coming now to direct taxes, my first proposal concerns salaried taxpayers. There have been many representations that the income-tax exemption limit should be raised, taking account of increases in the cost of living. I cannot accept, as a principle, that income limits for exemption from tax should be fixed with reference to cost of living. Nevertheless, I believe some relief to salaried taxpayers within the lowest taxable slab would be appropriate. At present, salaried taxpayers are entitled to a standard deduction equal to 20 per cent of the salary, subject to a ceiling of Rs. 5,000. I propose to raise the rate of deduction from 20 per cent to 25 per cent, without disturbing the ceiling of Rs. 5,000. This will give a significant measure of relief to those with salaries upto Rs. 20,000. The loss of revenue would be Rs. 21.58 crores in 1982-83.

Another measure of relief seems deserved, for those at the end of their working lives. I propose to exempt from income-tax, subject to certain conditions, the encashment benefit in lieu of unavailed earned leave given to employees when they retire.

Taxpayers who are not in receipt of house rent allowance are entitled to a deduction upto Rs. 300 per month in respect of the house rent paid by them. However, persons receiving house rent allowance are entitled to an exemption up to Rs. 400 per month in respect of the house rent allowance received by them. I propose to raise the monetary ceiling from Rs. 300 to Rs. 400 per month also for those who are not receiving house rent allowance.

The owner of a self-occupied house is entitled to a deduction, from the annual letting value of the house, of an amount equal to one-half of the annual letting value or Rs. 1,800 whichever is less. I propose to raise the monetary ceiling of Rs. 1,800 to Rs. 3,600.

The annual letting value of a newly constructed house let out on rent is reduced for tax purposes by an amount up to Rs. 2,400 in respect of each residential unit for a period of five years. With a view to providing a stimulus for construction of houses, particularly for persons with relatively lower incomes, I propose to raise the monetary limit of Rs. 2,400 to Rs. 3,600.

I propose to liberalise the scheme of deduction in respect of long-term savings such as life insurance, provident fund contributions, etc. A deduction of 100 per cent will be allowed in respect of the first Rs. 6,000 of the qualifying savings, *plus* 50 per cent of the next Rs. 6,000 of such savings *plus* 40 per cent of the balance. The monetary ceiling in respect of the savings qualifying for deduction is also being raised from Rs. 30,000 to Rs. 40,000. The higher monetary ceiling in respect of the qualifying savings in the case of authors, playwrights, artists, musicians, actors, sportsmen and athletes, is also being raised from Rs. 50,000 to Rs. 60,000. These incentives for larger savings will result in a revenue loss of Rs. 26.17 crores in a full year and Rs. 19.76 crores in 1982-83. It may be desirable in due course to provide a wider choice of eligible modes of savings to taxpayers. I therefore propose to extend the existing tax concession in relation to investment in notified Central Government securities.

I find that out of the new life insurance policies issued by the Life Insurance Corporation of India, nearly 15 per cent policies lapse before the end of the following year. Such a high volume of lapses shortly after the issue of the policies is a matter of concern. It also implies that the very purpose for which the tax concession is allowed in respect of premia on such policies, which is to promote long-term savings through life insurance, is frustrated. I propose, therefore, to provide that where a taxpayer discontinues a life insurance policy before premia for two years have been paid, no deduction will be allowed in respect of the premia if any paid under the policy and, if such deduction has been allowed, the same shall be withdrawn.

Under the existing incentives for stimulating savings and investment, income up to Rs. 3,000 from investment in specified financial assets, such as Government securities, units in the Unit Trust of India, bank deposits and shares in Indian companies, is exempt from income-tax. In addition, income up to Rs. 2,000 from units in the Unit Trust of India is exempt from tax. I propose to raise the ceiling of Rs. 3,000 to Rs. 4,000 and the separate ceiling in respect of income from units, from Rs. 2,000 to Rs. 3,000. This measure will result in a revenue loss of Rs. 12.12 crores in a full year and Rs. 9.09 crores in 1982-83.

As a parallel measure, I propose to raise the ceiling of the value of investments in specified financial assets exempt from wealth-tax from Rs. 1,50.000 to Rs. 1,65,000. In addition, the separate exemption of Rs. 25,000 provided in respect of units in the Unit Trust of India is proposed to be raised to Rs. 35,000. The revenue loss will be Rs. 1.54 crores in a full year, but there will be no loss in 1982-83.

At present, taxpayers are allowed a deduction, in the computation of taxable income, of 50 per cent of amounts invested in equity shares of new industrial companies and companies engaged in providing long-term finance for construction or purchase of houses for residential purposes. The maximum investment in a year qualifying for this deduction is limited to Rs. 10,000. With a view to encouraging larger investments in such companies, I propose to raise the monetary ceiling for investment to Rs. 20,000.

While I have given some relief to those in the lowest taxable income range, I consider that there is scope for more progression in the tax rates for high incomes. I, accordingly, propose to modify the rates of personal taxation, so as to raise the rate of income-tax on the slab of Rs. 60,001 to Rs. 70,000, from 50 per cent to 52.5 per cent, and on the slab of Rs. 85,001 to Rs. 1,00,000, from 55 per cent to 57.5 per cent. This would yield Rs. 3 24 crores in a full year and Rs. 2.43 crores in 1982-83.

Deduction of tax at source from dividends, interest on securities and other interest causes considerable inconvenience, and even hardship, to a large number of small investors whose taxable income is below the exemption limit. For the convenience of such persons, I propose to provide that income tax shall not be deducted at source if the recipient furnishes a declaration to the payer of such income to the effect that his estimated total income of the relevant year will be below the exemption limit.

I also propose to provide that tax will not be deducted at source from interest paid on such securities of the Central Government or a State Government as may be notified by the Central Government in this behalf.

The tests of "residence" in India laid down for taxation purposes result in hardship to Indian citizens earning income in foreign countries who come to India for short spells. An individual is regarded as resident in India in a year if he stays here in that year for 30 days only, and also maintains a dwelling house here for 182 days or more. As this test causes hardship to persons working outside India, who come home even on relatively short visits, I propose to delete this test of residence.

Under another test, persons who have been in India for 365 days or more in the four years preceding the relevant year, become resident in that year by being in India for 60 days or more in that year. In the case of Indian citizens who are employed abroad and who come to India on leave or vacation, the period is 90 days I propose to extend this benefit also to the self-employed and those in other occupations, irrespective of their avocation abroad or the nature of their visit to India.

Indian citizens who go abroad for purposes of employment are now chargeable to tax in India on their foreign income, if they have stayed in India for more than 60 days that year. I propose to liberalise the provision so that an Indian citizen who leaves India in any year for purposes of employment shall not be treated as resident unless he has been in India for 182 days or more in that year.

I will now come to some proposals regarding foreign exchange earnings. I propose to provide some tax relief to exporters whose export turnover for any year exceeds that of the immediately preceding year by more than 10 per cent. The tax relief, to be calculated at a specified percentage of such excess turnover, would be limited to 10 per cent of the income-tax otherwise payable on export profits. The rate at which the tax relief will be calculated and the goods qualifying for the purposes of this concession will be notified by the Central Government.

With a view to strengthening the competitiveness of our construction contractors who have undertaken projects outside India, I propose to exempt 25 per cent of the profits derived by them from such foreign contracts, subject to certain conditions.

With a view to augmenting the capital base of Indian banks engaged in banking operations in foreign countries, I propose to provide that those banks which are approved in this behalf by the Central Government would be entitled to a deduction upto 40 per cent of their income carried to a special reserve account.

Interest-tax levied under the Interest-tax Act forms an integral part of our credit policy. However, taking note of the escalation in costs of industrial projects, I propose to exempt scheduled banks from payment of interest-tax on the interest received by them on loans sanctioned in foreign currency for import of capital plant and machinery. With a view to improving the competitiveness of export of capital plant and machinery, I propose to exempt interest paid on credit sanctioned dy scheduled banks for export of capital plant and machinery on deferred payment terms outside India.

Investment allowance at the higher rate of 35 per cent is granted in respect of machinery and plant installed for the manufacture of articles made with know-how developed in Government laboratories, public sector companies, recognised institutions and universities. This concession is available in relation to machinery and plant installed up to 31st March, 1982. I propose to extend this tax concession for a further period of five years.

Dividends received by a domestic company from an Indian company engaged exclusively or almost exclusively in the manufacture of specified articles are completely exempt from income tax. Having regard to the importance of basic drugs, synthetic rubber and rubber chemicals (including carbon black), I propose to extend the benefit of this tax concession to dividends received from companies engaged in the manufacture of these articles as well.

At present, scheduled commercial banks are allowed a deduction in respect of provisions made by them for bad and doubtful debts relating to advances made by their rural branches. The deduction is limited to 1.5 per cent of the aggregate average advances made by the rural branches. In order to promote rural banking and to assist non-scheduled commercial banks operating in the rural sector, I propose to extend the benefit of this tax concestion to them also.

Energy saving and protection of the environment are high priority areas. I therefore propose to allow depreciation at 30 per cent on devices and systems for energy saving , or for minimising environmental pollution or for conservation of nutural resources. The list of the qualifying items will be notified in due course.

At present, taxpayers are entitled to 100 per cent deducation in respect of donations made to approved institutions engaged in carrying out programmes of rural development. I propose to extend this concession to donations made to approved institutions for use in programmes of conservation of natural resoursces.

Hon'ble Members will be happy to hear that I propose to place donations made to the National Children's Fund at par with donations made to other funds of national importance such as the National Defence Fund, the Jawaharlal Nehru Memorial Fund, and the Prime Minister's National Relief Fund.

I consider that some rationalisation of the taxation in respect of capital gains is disirable. In the case of non-corporate taxpayers, long-term capital gains up to Rs. 5,000 are deducted in full. Of the balance ammount, a deduction of 25 per cent is allowed where the gains relate to lands and buildings and of 40 per cent where the gains relate to other assets. I propose to modify these provisions so as to relate the deduction to the period for which the capital asset has been held by the taxpayer, and allow a larger deduction in cases where the asset has been held for a longer period. The aggregate deduction in respect of capital gains relating to gold, bullion or Jewellery will, however, be restricted to Rs. 50,000 only.

There is an acute shortage of housing, and house building activity has to be given impetus. With a view to providing an incentive to taxpayers who do not own a residential house, I propose to exempt from tax long-term capital gains arising from the transfer of other assets where the net consideration is invested by the taxpayer in a residential house.

At present, capital gains arising from the transfer of a house used for personal residence by the taxpayer are exempt from income-tax to the extent that such gains are utilised by the tax-payer for constructing or purchasing a house for purposes of personal residence within a specified period. These conditions often lead to hardship. I therefore propose to remove these restrictive conditions.

Charitable and religious trusts are required to conform to the investment pattern laid down in the Income-tax Act. Any trust which has not changed over to this pattern of investment will forfeit exemption from tax from the assessment year 1982-83. These trusts have been given adequate notice to change their investment pattern and, ordinarily, I would not have proposed any modification in these provisions. However, I find that the whole gamut of the provisions relating to charitable and religious trusts is under consideration by the Economic Administration Reforms Commission. As the Government would like to carefully consider the recommendations of the Commission in this matter, I propose to amend the relevant provisions so that such trusts do not forfeit exemption from income–tax for the assessment year 1982–83.

My distingished predecessor had made an announcement in the Lok Sabha on the 31st March, 1981 that the provisions of the Income-tax Act relating to the investment pattern of trust funds would be modified, so as to permit charitable and religious trusts or institutions to invest the trust funds in immovable properties as well. I am proposing an amendment of the relevant provisions of the Income-tax Act to fulfil the assurance given by him.

While the levy of wealth-tax on agricultural property was discontinued by the Finance (No. 2) Act, 1980, owners of tea, coffee, rubber and cardamom plantations continue to be chargeable to wealth-tax. Our experience is that the valuation of agricultural land forming part of such plantations leads to administrative difficulties, complaints of harassment and litigation. The yield from this levy is also insignificant. I, therefore, propose to discontinue the levy of wealth-tax on such plantations as well.

The value of tools and instruments necessary to enable the taxpayer to carry on his profession or vocation is exempt from wealth-tax up to an aggregate amount of Rs. 20,000, which appears inadequate. I propose to raise it to Rs. 50,000. I also propose to raise, from the present Rs. 30,000 to Rs. 75,000, the ceiling of the value of conveyances, including motor cars, for the purpose of exemption from wealth-tax.

Stamp duty paid on an instrument relating to the gift of any property is allowed as a deduction from the gift-tax payable by the taxpayer in cases where the amount of gift-tax exceeds Rs. 1,000. I propose to allow the benefit of this deduction even where the gift-tax payable does not exceed Rs. 1,000.

The Hotel-receipts Tax Act, 1980 provides for the levy of a tax on the gross receipts of luxury hotels. As the levy of this tax may adversely affect the flow of foreign tourists into India, I propose to discontinue this levy in relation to the chargeable receipts of such hotels accruing or arising or received by them after the 27th February, 1982. The revenue loss would be about Rs. 6 crores.

The other proposals in the field of direct taxes are of relatively minor importance. I would, therefore, not like to take up the time of the House by referring to them here.

Hon'ble Members would have noted that in the direct tax proposals I have set out, I have endeavoured to preserve stability in the tax system, while providing substantial incentives for savings. I have also rationalised the capital gains tax and provided some concessions where necessary.

Mr. Speaker, Sir, I now turn to the area of indirect taxes. Taking customs duties first, my principal proposal is with regard to auxiliary duties of customs. This levy, which has been imposed on an annual basis since the 1973 Budget, is proposed to be continued during 1982-83. The balance of payments position has been under pressure in recent times and will continue to be so for some time to come. However, a liberalised regime of imports has been a feature of our economic policies. This will be continued in order that investment and production, particularly in essential and priority sectors, are not hampered or slowed down. There is no strong reason, however, why those who have access to imports in a diffiult situation should grudge to pay a little more. I accordingly propose to increase the rates of auxiliary duties by 5 percentage points on all categories of imports, with some exceptions.

I am excluding from the proposed increase in auxiliary duty essential items like crude petroleum, bulk petroleum products, such as kerosene and high speed diesel oil, and some other items on which import duty rates have been adjusted in the recent past on price parity considerations. Fuller details of these proposals are available in the Budget papers.

My proposals relating to auxiliary duties of customs are expected to yield an additional revenue of Rs. 290 crores

In the light of the present market conditions, and the need for encouraging a few selected industries, it is necessary to effect certain changes in the basic customs duties. I propose to raise the basic customs duty on cork and cork articles from 40 per cent to 60 per cent *ad valorem*; on certain categories of dyestuffs, from 60 per cent to 100 per cent *ad valorem*; and on certain other categories of dyestuffs, pigments and colours and paints and varnishes, from 100 per cent to 150 per cent *ad valorem*. I also propose to increase the basic cumtoms duty on certain items of iron and steel, such as melting scrap of stainless steel and heat resisting steel, and certain categories of alloy steel excluding stainless steel and heat resisting steel, from the existing levies to 60 per cent *ad valorem*. The effective rate of basic customs duty on copper pipes and tubes, blanks and hollow bars of prescribed specifications will be increased from 40 per cent to 60 per cent *ad valorem*. The basic customs duty on polyester chips is being increased from 100 per cent to 140 per cent. These proposals are likely to result in additional revenue of Rs. 42 crores.

It may be recalled that in the last Budget, an effective customs duty of 15 per cent *ad valorem* was imposed on imported newsprint on which there continues to be large foreign exchange outgo. The Government has received representations against this levy. I propose to convert the *ad valorem* levy to a specific total levy of Rs. 825 per metric tonne so as to obviate automatic increase in its incidence on account of rising international prices. There will be no revenue loss.

The indigenous zinc and lead industries are facing difficulties owing to escalation of input costs, particularly of imported concentrates. In order to enable them to increase their capacity utilisation, I propose to reduce the total customs duty incidence on imported zinc concertrates from 50 per cent to to 15 per cent *ad valorem* and that on lead concentrates from 50 per cent to 5 per cent *ad valorem*. Simultaneously, I propose to increase the customs duty on imported zinc metal from 50 per cent *ad valorem* to 60 per cent *ad valorem*. In order partly to offset the revenue loss, I propose to increase excise duties on indigenously produced zinc metal, zinc scrap and zinc products by Rs. 715 per metric tonne and that on lead metal and scrap by Rs. 374 per metric tonne. The excise duty on zinc pipes and tubes will go up from 38.5 per cent to 49.5 per cent *ad valorem*. These measures, taken together, would result in an overall loss of about Rs. 41 lakhs.

With a view to improving the competitive position of Indian chromite ore in the context of falling prices in the export market, I propose to convert the existing specific rates of export duty applicable to different grades of the ore and concentrates to an *ad valorem* duty of 10 per cent. The revenue sacrifice is of the order of Rs. 1 crore.

I also propose to fully exempt two fertilizers — Calcium Ammonium Nitrate and Ammonium Sulphate from customs duties. The import duty on internal combustion engines and non-interchangeable parts of such engines for manufacture of power tillers is also proposed to be reduced from 125 per cent to 50 per cent.

I propose to fully exempt 10 more bulk drugs imported for manufacture of life-saving drugs and medicines. Details are being notified.

During the past few years, the Government has been using the fiscal mechanism for accelerating the growth of the electronics industry. As a further step in this strategy, I propose to raise the basic customs duty on electronic items such as computers, calculating machines, accounting machines, cash registers and certain electronic sub-assemblies from the existing levels of 40, 50 and 60 per cent to 100 per cent *ad valorem*. On the other hand, I propose to extend the scope of the present import duty concessions to cover 45 new items of capital equipment and 13 new items of raw materials and components used by the electronics industry. The customs duties leviable on these items are proposed to be reduced from the respective existing rates to 35 per cent *ad valorem* in the case of machinery and instruments and to 55 per cent *ad valorem* in the case of raw materials and components. The net revenue gain from these proposals is Rs. 13 crores.

Representations have been received that it is not always possible for units in the Free Trade Zones to export their entire production, and that a provision should be made to allow a proportion of the goods manufactured in these Zones to be cleared into the domestic tariff area. It has been decided, subject to certain conditions, to allow such removals upto 25 per cent of the production of a unit for sale or use within the country on payment of appropriate duties. Provision is being made in the Finance Bill to amend the Customs and Central Excise Acts for the purpose.

On the Central excise side, the levy of special duties of excise is proposed to be continued at the existing rates during the year 1982-83. The existing exemptions from the special duty are also proposed to be continued.

As I said earlier, my basic approach has been that additions to revenue from Central excise duties should essentially come from increased production. I am also avoiding recourse to measures which could affect retail prices over a wide spectrum of goods. I have accordingly selected only a very few items for increased taxation. In selecting these items, I have kept in view the demand and supply situation which has resulted in undue profits to trading channels, the scope for subjecting certain articles of elite consumption to a higher rate of tax, and the need to restructure the excise and customs duties applicable to certain basic indu tries.

The Government has decided to introduce a scheme of 'levy' and 'free' sale of cement, and a dual pricing policy based on this concept. Details of the new scheme are being notified by the Government separately. There has been no increase in the low level of basic excise duty on cement since January, 1977, even though thereafter the price of cement has increased very substantially. I propose to increase the total excise duty on ordinary portland cement, portland pozzolana cement, blast furnance slag cement and masonry cement, from Rs. 71.50 to Rs. 135 per metric tonne. The more expensive special varieties of cement will be subject to higher rates of duty. The effective total excise duty on cement produced in mini cement plants is proposed to be fixed at Rs. 100 per tonne. I also propose to impose a basic customs duty of 10 per cent *ad valorem* on imported cement, together with full countervailing duty. No auxiliary duty would be leviable on imported cement. These proposals will give additional revenue of Rs. 158.73 crores on the Central excise side and Rs. 39.60 crores on the customs side. The impact of the proposed increase in excise duty per bag of cement of 50 kilograms would work out to Rs. 3.175.

In the recent past, certain expensive electronic goods favoured by the affluent are being produced in increasing quantities. These are now subjected to a very low incidence of duty at 8 per cent *ad valorem* under Item 68 of the Central Excise Tariff. I now propose to carve out new entries in the Excise Tariff, and subject video cassette recorders and reproducers, television cameras and video cameras, and similar goods to a basic excise duty of 25 per cent *ad valorem*. Blank and recorded video and audio tapes of the spool and cassette types, as also video discs, are also proposed to be subject to a basic duty of 25 per cent *ad valorem*. Recordings which are not for commercial purposes will be exempt. I also propose to levy basic duty at a higher rate of 40 per cent on electronic machines for games of skill or chance, including those used for television games and video games. These proposals would yield revenue of Rs. 3.83 crores.

Toilet preparations not containing alcohol are liable to Central excise duty at the basic rate of 100 per cent *ad valorem* whereas those containing alcohol attract duty under the Medicinal and Toilet Preparations (Excise Duty) Act at only 60 per cent *ad valorem* or Rs. 13.20 per litre of pure alcohol content, whichever is higher. Some misuse because of these differential rates has come to notice. I, therefore, propose to raise the alternative *ad valorem* rate to 100 per cent *ad valorem* so as to place both categories of toilet preparations more or less at par. The revenue yield from this measure is expected to be Rs. 2.3 crores and would accrue mostly to the States.

Hon'ble Members may recall that the Textile Policy Statement of March, 1981 envisaged a review of fiscal levies on man-made fibres and yarn. While cotton will continue to enjoy the predominant position in textiles, it is necessary to encourage increased consumption of blends of cotton and man-made fibres and yarns, if we are to achieve the Plan target of even a modest increase in the per capita availability of cloth. For some time past, blended fabrics containing polyester fibre in proportions too small to impart the requisite durability and easy-care properties to the fabrics are flooding the market with stampings thereon which would mislead the public. From the point of view of better utilisation of polyester fibre, it is necessary to encourage blends of desirable proportions and discourage blends which do not really serve the intended purpose. I therefore propose to make certain changes in the fiscal levies applicable to man-made fibres and yarns. I propose to increase the duty on blended cotton yarn and cellulosic spun yarns containing up to one-sixth by weight of polyester fibre from the existing average total incidence of Rs. 1.63 per kilogram to Rs. 7.5 per kilogram. The total incidence on such blended yarns containing more than one-sixth but less than 50 per cent of polyester fibre, which seem to be desirable blends in Indian conditions, is proposed to be reduced from Rs. 22.50 per kilogram to Rs. 11.25 per kilogram. Similarly, the incidence on blends containing 50 per cent or more but less than 70 per cent of polyester fibre is being reduced from Rs. 30 per kilogram to Rs. 22.50 per kilogram. There will be no change with regard to blends containing 70 per cent or more of polyester fibre.

It is proposed to increase the total incidence of Central excise duty on acrylic fibre from Rs. 12.50 to Rs. 17.50 per kilogram and simultaneously to reduce the countervailing duty on imported fibre from Rs. 37.50 to Rs. 30 per kilogram.

Turning to viscose staple fibre, the excise duty is being raised from Rs. 3.125 per kilogram to Rs. 4 per kilogram and the duty on polynosic and high wet modulus fibres is being reduced from Rs. 4 per kilogram.

Acetate filament yearn which is used in the decentralised sector is not produced in adequate quantities in the country. It is proposed to reduce the customs duty on it from 125 per cent to 20 per cent *ad velorem* so as to facilitate imports of this yarn.

I do not propose to change the excise or basic customs duty rates applicable to other fibres such as acetate fibre and polyester fibre and other filament yarns such as viscose, nylon and polyester filament yarn.

These proposals would result in a net loss of Rs. 13 crores on the

Central excise side and a gain of Rs. 12.94 crores on the customs side.

At present, there is no basic excise duty leviable on man-made fabrics, the incidence of such duties having been shifted to the fibre and yarn stages. These fabrics attract only additional excise duties in lieu of sales tax. While the present rate structure is progressive on fabrics having ex-factory price up to Rs. 10 per square metre, it is not so in respect of the higher priced fabrics since the duty applicable to them is a uniform 5½ per cent *ad valorem*. There are very high-priced fabrics in this range, catering to affluent consumption, and these fabrics can well bear a moderate increase in duties. I therefore propose to introduce further progression in the rate structure in such a way that fabrics having ex-factory prices of more than Rs. 20 per square metre would attract duty at 7½ per cent *ad valorem*. The additional revenue from this proposal is estimated at Rs. 35 crores, which will go to the States. The proposal would also be a step towords fulfilment of the Centre's commitment to the States to increase the overall incidence of additional excise duties in lieu of sales tax, as a percentage of the value of clearances. I am sure that Parliament and the States would whole-heartedly welcome this step.

The overall effect of the duty changes on blended fabrics containing cotton, cellulosics and polyester would be a decrease in the price of desirable blends and an increase in the price of the other less desirable blends.

I have included in the Finance Bill some provisions designed to achieve simplification and greater clarity in the tariff nomenclature and thereby minimise the scope for classification disputes. These measures are not designed as revenue raising exercises, but because of the changes in classifications, some revenue will accrue. The proposals cover, among others, major petroleum products, artificial and synthetic resins and plastic materials.

I also propose to rationalise and restructure the tariff relating to paper and paper boards, the primary objective being to exempt small scale paper converters from payment of excise duty and to release them from excise control. In order to recoup the consequent loss in revenue, I propose to raise the basic excise duty on industrial varieties of paper and paper boards by a small margin of 2½ per cent *ad valorem*. However, certain converted papers of high value-added categories are proposed to be subject to basic excise duty at 32½ per cent *ad valorem*. Similarly, specified articles made of paper and paper board are proposed to be brought within the purview of the tariff item but effectively restricting the levy to printed cartons and printed boxes.

In recent years, the scheme of input excise duty relief has been extended to cover certain specified industrial products. I propose to further extend input duty relief in respect of synthetic rubber, carbon black and rubber processing chemicals going in to the production of tyres. To make up for the revenue loss, I propose to raise the duty leviable on tyres from a total of 60.5 per cent to 66 per cent *ad valorem*. While tyres for tractors and scooters will also enjoy the benefits of the input duty relief, I do not propose to increase the final duty rates on them. As this is intended to be a balancing exercise, no credit for additional revenue is being taken.

As the House is aware, the administered price of aluminium metal is revised periodically, keeping in view escalations in input costs. In order to contain the incidence of excise duty, it is proposed to levy duty at specific rates. The rates would be Rs. 3,085 on electrolytic grade ingots, Rs. 3,125 on billets, Rs. 3,330 on wire rods produced by primary producers and Rs 3,280 on wire bars. There would be no change in the rates of countervailing duties. The proposal will give some relief to the finances of State Electricity Boards.

As an anti-avoidance measure, I propose to add to the present *ad valorem* levy on flat glass, a specific levy at the rate of Rs.5.50 per millimetre thickness per square metre. Effective rates of duty are being prescribed at lower levels for different categories of flat glass.

The Government has received a large number of representations alleging malpractices in the biri industry, on account of the present differential rates of excise duty applicable to branded and unbranded biris. Many State Governments and Associations have urged that this distinction should be done away with, A suggestion to the same effect has also been made in a recent meeting of Labour Ministers Taking note of these points, I propose to do away with the existing duty differential and to subject both branded and unbranded biris to a uniform composite duty rate of Rs. 3.60 per thousand. Simultaneously, the existing quantum of unbranded biris eligible for duty free clearance is also being reduced from 30 lakhs to 20 lakhs in a financial year. This would still leave self employed family units, petty shop-keepers etc. out of the tax net.

The general scheme of excise duty concession applicable to small manufacturers of 72 specified groups of commodities is being extended to manufacturers of asbestos fibre and yarn. Some misuse of the scheme with a view to avoiding excise duty on popular brands of aerated waters has come to notice. I therefore propose to take aerated waters out of the scope of the general scheme and devise a new scheme for it. Essentially, small manufacturers who sell their products under their own brand or trade names would continue to enjoy the benefits available under the present scheme. However, manufacturers who produce and bottle aerated waters under brand or trade names in pursuance of agreements with the owners of such brand or trade names would not be eligible for the concession. This also is purely an anti-avoidance measure.

The general scheme referred to earlier seems to have been similarly exploited by certain small manufacturers of synthetic organic dyestuffs. Under the present scheme, clearances up to Rs. 7½ lakhs are fully exempt and an additional Rs. 7½ lakhs are subject to duty at 3/4ths of the duty rate applicable to the organised sector. In view of the relatively high rate of duty on dyestuffs and the fact that techniques of production of some dyestuffs are comparatively simple, it appears there has been a proliferation of small units with consequent deleterious effects on the quality, and also on the industry as a whole and on exports. I, therefore, propose to delete dyestuffs from the purview of the general scheme. Under a new scheme which is being announced in respect of dyestuffs, very small manufacturers whose clearances do not exceed Rs. 1 lakh per annum will be fully exempt from excise duty. In the case of other small manufacturers, clearances upto Rs. 15 lakhs of dyestuffs will be subject to 50 per cent of the duty applicable to the organised sector. All manufacturers will be brought under excise control. The monetary content of the present scheme of relief is, by and large, maintained under the new scheme.

At present, certain specified consummer electronic goods manufactured in the small sector attract duty rates lower than the normal rates. To restrict this duty concession to genuine small manufacturers, it is proposed to restrict the scheme of duty exemption to manufacturers with total annual turnover not exceeding Rs. 2 crores.

With regard to the match industry, I do not propose to disturb the existing duty structure. Small manufacturers whose clearances have not exceeded 150 million matches in the preceding financial year would continue to be eligible for the concessional rate of duty of Rs. 1.60 per gross boxes on clearances upto 120 million matches in the financial year. The concession will not be available if the matches are marketed under the labels of manufacturers who pay duty at Rs. 4.50 or Rs. 7.20.

As Hon'ble Members are aware, the Government has been using the excise duty mechanism as a powerful incentive for the growth of the cottage sector of the match industry. A number of manufacturers in the middle sector have, however, challenged in courts of law, the excise concession scheme for the cottage sector and obtained judgements in their favour. This may result in refund of substantial amounts of duty to the middle sector units. As the element of duty at the higher rate would have already been passed on to the millions of consumers, any refund of such duties would only result in unjust enrichment. A provision has been made in the Finance Bill to obviate this contingency.

There have been some disputes in the recent past regarding the determination of assessable values of excisable goods from a given cum-duty price, resulting in considerable litigation. This has resulted in locking up substantial amounts of revenue. It is proposed to suitably amend section 4 of the Central Excises and Salt Act to make it clear that in computing the amount of duty of excise deductible from the cum-duty price, the effective amount of duty of excise payable on the goods under assessment shall alone be taken into account. This amendment is being given effect to, retrospectively from 1st October, 1975.

It has been the long-standing practice to charge excise duty on goods used for captive consumption within the factory where they are produced. Some doubt had, however, been cast on this position as a result of judgements of some High Courts, which interpreted certain provisions of the Central Excise Rules to hold that duty could not be collected on such goods as they had not been 'removed' from the factory. A number of manufacturers have also obtained stay orders from courts based on the same grounds. The matter has been taken up in appeal. Nevertheless, in order to place the position beyond doubt, the relevant Central Excise Rules have been suitably amended. A provision has also been included in the Finance Bill so that these amendments will have retrospective effect and the collections of duty made in accordance with the existing practice will also be validated.

As the House is aware, 1982 has been designated by the Prime Minister as the "Productivity Year". With the improvement in infrastructural facilities, it is hoped that industrial production would register further growth in the current year. The fiscal mechanism could be judiciously deployed in furthering this objective. With this in view, I propose to formulate a scheme of excise duty concession for increased production of goods during the period of 12 months commencing on the March 1, 1982 and ending on the February 28, 1983. The scheme would cover 38 tariff items including some basic raw materials, other important industrial inputs and certain finished products. Some of the items are caustic soda, fertilisers, synthetic resins, steel ingots and steel products, internal combustion engines, wires and cables, two and three wheeled motor vehicles, light and heavy commercial vehicles, tractors, railway wagons, man-made fibres and filament yarn, tyres and writing and printing paper. A full list may be found in the Budget papers. The benefits of the scheme would accrue only in cases where the production in the 12 months period referred to above exceeds 110 per cent of the production during the base period, namely, the 12 months ending on the February 28, 1982. The duty concession would be 1/5th of the total amount of duty paid on the excess production computed, as explained earlier, in respect of goods carrying basic excise duty of 20 per cent *ad valorem* or less, and 1/10th of the duty in other cases. The amount so computed for the whole period would be given as a credit which may be utilised for payment of Central excise duty during the financial year 1983-84.

The scheme will apply also to small scale manufacturers, who actually pay duty. It is proposed to ensure that those small scale units which are eligible for the benefits of the relevant excise duty concession schemes and are within the respective cut-off points during the year 1981-82, would continue to be eligible to the said benefits in 1983-84, even if they produce and clear goods in excess of the eligibility limits in the Productivity Year.

I am sure that industry will rise to the occasion and respond to this generous gesture of the Government and achieve new peaks of production. Since the Government would also be a beneficiary of the higher production in the shape of increased collection of excise duties, I do not propose to take any amount as revenue loss on account of the proposed concession.

I have already referred to the need to minimise the impact of my proposals on the middle and poorer sections of society. I propose to go further and give some concessions on articles of special interest to those sections. I propose to partially or fully exempt from excise duties several articles of common consumption. Some of these products are of interest to the student community, some are of general utility, yet others of interest to the disabled and one in the interest of horticulture. I propose to fully exempt from excise duty, pencils, erasers, pens including ball point pens and refills, laboratory glassware, enamelware, thermos flasks and parts, water coolers, candles, tooth brushes, spectacles and spectacle frames, one-day alarm clocks, domestic water filters, handpumps, Braille typewriters, invalid carriages and helmets. Further, I propose to reduce the basic excise duty on specified fruit and vegetable preparations from 15 per cent to 10 per cent *ad valorem*. I also propose to increase the present value limits of Rs. 15 per pair of footwear for eligibility to full duty exemption, to Rs. 30 per pair. Lac is also being exempted. In order to reduce the packaging cost involved in the sale of milk in laminated paper packs, I propose to exempt from excise duty low density polyethylene film and paper to be used by the Indian Dairy Corporation for the manufacture of such paper packs. This measure should enable larger marketing of milk in paper packs which have a longer shelf life, and also help in the fuller utilization of surplus milk produced in flush seasons.

At present, mopeds of engine capacity upto 75 cc bear a reduced rate of excise duty of 10 per cent *ad valorem*. This fuel-saving personalised conveyance is becoming increasingly popular particularly in urban and semi-urban areas. I propose to extend the concession to mopeds of engine capacity upto 100 cc which are expected to be more fuel-efficient.

I had referred earlier to certain adjustments of excise and customs duties consequent on a review of the fiscal levies on man-made fibres and yarn. The production of blended cloth in the handloom sector is at present around 12 million metres. In order to enable the handloom sector to register faster growth, I propose to fully exempt from excise duties polyester blended fabrics woven on handlooms from processing stage duties, if they are processed in factories set up by State Handloom Development Corporations or Apex Co-operative Societies approved in this behalf by the Central Government. This concession involves a revenue loss of Rs. 4 crores. I also propose to exempt metallised man-made filament yarn from the whole of the excise duty considering its use in saris and the like. The value of this concession is about Rs. 1 crore.

These excise duty concessions I have just referred to entail a total revenue sacrifice of Rs. 13.77 crores in a full year.

Where the changes are to be made by Notifications effective from February 28, 1982, copies thereof will be laid on the Table of the House in due course.

My proposals will yield a net sum of about Rs. 196.18 crores from excise duties and Rs. 391.35 crores from customs duties. The yield from duties under the Medicinal and Toilet Preparations (Excise Duties) Act will be Rs. 2.30 crores in a full year. Taking all the proposals together, the net accrual to the Central exchequer in a full year will be Rs. 487.60 crores and that to the States will be Rs. 102.23 crores.

I now have something to say on behalf of my Hon'ble colleague, the Minister of Communications. As the House is aware, postal services have been extended over the years throughout the country. There are over 1,40,000 post offices. The service is highly employment intensive, with more than 5.6 lakh employees including extra-departmental staff. Salaries and wages therefore constitute a major part of the operating expenses of the Postal Department. The postal services are presently under-priced and the rates are inadequate even to meet the direct cost of several services. The grant of additional instalments of dearness allowance, and increases in other operating expenses, add significantly to these costs. A revision of tariffs for some postal services has therefore become unavoidable. Accordingly, it is proposed to raise the rate for printed post cards from 20 paise to 25 paise, letter cards from 25 paise to 35 paise and envelopes of the lowest weight slab from 35 paise to 50 paise. There will be no increase in the rate of the ordinary post card which is generally used by the common man, even though this service involves an annual loss of about Rs. 20 crores. The tariff for book-post articles is also proposed to be raised from 25 paise to 30 paise. The postage fer a registered newspaper has remained at the very low level of 2 paise for many years now. It is proposed to fix it at 5 paise for a single newspaper, with suitable adjustments for higher weight slabs. Even after this revision, the newspaper service will be subsidised to the extent of Rs. 7 crores a year.

A memorandum showing the proposed tariffs is being circulated along with the Budget documents. The changes would take effect from a date to be notified after the Finance Bill is passed by Parliament. The revisions proposed are estimated to yield an additional revenue of Rs. 35.33 crores in a full year and about Rs. 26 crores in 1982-83.

I had mentioned that the budgetary deficit at the existing rates of taxation would be Rs. 2,085 crores. The tax measures proposed now, taken together with the reliefs and concessions, are estimated to yield net additionat revenue of Rs. 470 crores to the Centre and Rs. 63 crores to the States during 1982-83. Besides, the States will get an additional revenue of over Rs. 2 crores from the increase in the duty on medicinal and toilet preparations. I am taking credit for Rs. 250 crores as receipts from the Capital Investment Bonds which I referred to earlier. This would leave an uncovered deficit of Rs. 1,365 crores in 1982-83, which is substantilly lower than the estimated deficit for the current year.

Mr. Speaker, Sir, I have set forth a framework of policies with a view to encouraging higher savings, investment and production in the economy. Plan outlays are being stepped up substantially, particularly for sectors emphasized in the 20-Point Programme. Adequate provision has been made for national security. Despite these commitments, the budgetary deficit has been contained within reasonable limits. To achieve this, a measure of resource mobilisation was inescapable.

It is a Growth-Oriented Budget

By P. K. JHA *

THE budget of 1982-83 presented to the Parliament is a step forward in realising the main objectives of the Sixth Plan, viz., increase in production, mitigation of the inequalities in wealth and income and enhancement in employment opportunities. The budget aims at stimulating the rate of saving to promote capital formation which can make the rate of investment higher enough to cope with the "rapid growth" targat of production. Therefore, the budget has been rightly described as "saving and production oriented budget." Increasing the rate of saving means increase in capital formation, investment, effective demand, national income and securing the higher rate of employment, which is one major objective of the Sixth Plan.

By pegging down the rate of income tax on income below Rs. 60,000 the budget has definitely granted a relief to the middle income and low income group of people whereas progressive stepping up of rates above this income will secure the objective of reducing disparities in wealth and income and concentration of economic power particularly when viewed in the light that the receipts from this income will be spent on the economic welfare of the poor. This tendency is further reinforced by exempting fertilizer and drugs to benefit the farmers and poor people. Raising of additional revenues from taxation and electronics and steel items mostly consumed by the richest sections, enhancement of postal rates on high income items and tyres, means higher burden on stronger shoulder to benefit the poor.

The budget has used indirect taxes such as customes and excise and direct taxes like Income-tax as complementary instruments to realise the goal of "economic growth with social justices". While formulating the budget proposals, Mr. Mukherjee has coupled incentive for savings through new instruments and tax reliefs by raising ceilings of ratifying for deductions with new levies on cement, man-made fabrics, tyres, paper, almunium, metal and a host of other articles. He has put up personal taxation rates for the higher sales of income. Multi-dimentional devices have been adopted to push up economic growth with special eye on Rural Development. In order to boostup investment the budget has provided additional opportunities for the flow of money from Indians abroad. The growth objective is further demonstrated by raising the plan outlay to the extent of 21 per cent. National security and safety which is so essential for economic development has been granted the top priority by raising the defence budget to the extent of Rs. 500 crores.

In the budget, the old instruments of the tax revenue, non-tax revenues, internal and external public borrowings have been utilised to net Rs. 590 crores of additional revenue-a modest burden on the nation. However, to make the budget objective a success it is essential that the proper allocations be made productive by providing necessary input, infrastructur and services so that there is substantial increase in real income at lower cost to cope with the existing inflationary pressure, budgetary inflation and the uncovered gap of Rs. 1,365 crores.

---

* Dr. P. K. Jha is Head of the Department of Economics, L. N. Mithila University, Darbhanga.

Budget Provides Enough Incentives to Saving and Investment

— B. R. K. RAU *

THE much-awaited budget for 1982-83 has created mixed feelings among the people of India. The raising of the standard deduction from 20 per cent to 25 per cent of the income will benefit people drawing income up to Rs. 20,000 per annum as against Rs. 15,000 in the previous budget. The benefit may not mean much in a situation of prices rising daily. But when this benefit is coupled with cent per cent deduction of Life Insurance and Provident Fund savings upto Rs. 6,000, 50 per cent of the next six thousand and 40 per cent of the remaining saving it is substantial. Though the raising of the monetary ceiling of insurance and provident fund savings from Rs. 30,000 to Rs. 40,000 is good, it would have become a meaningful economic measure if raised to Rs. 50,000. Tax concession for house building activity and removal of restrictions on self housing is a sensible step to reduce the scarcity of housing accommodation for the middle as well as lower classes.

Tea, Coffee and rubber are good foreign exchange earners. Rubber is vital for transport and economic development. But these industries besides requiring huge capital, are difficult to be run. Once they begin to run, they provide good employment. So they need support and encouragement. As such wealth tax concession to these industries is very useful to the economy. Let there be development first, it will automatically extend and improve distribution. Intending to resort to provide cakes without flour is foolish. Let us develop the economy through private sector as well as public sector. Then we will have better prospects for more equal distribution. In this sense,

---

* Dr. B. R. K. Rau is Head of the Department of Economics, S. V. University College, Tirupati-517 502, Andhra Pradesh.

wealth tax concession to tea, coffee and rubber plantations is highly justifiable.

An increase in the outlays on petroleum sector, central power projects and irrigation and command area development are quite favourable for industrial development and increasing food production both of which being necessary for making the nation economically and also in other respects stronger in the face of a threat of foreign agression. But additional duty on cement is retrograde. Additional tax on electronic goods is a blow to the keys of industrial and educational advancement. Excise duty concession to items like basic raw materials, some important industrial imports and some finished products, in the year of productivity, is definitely useful to economic development, though to a limited extent.

The tax relief to exporters who exceed their target by ten per cent not only helps to set right the adverse balance of payments but also stabilises the economic activity becoming a definite step towards economic prosperity. Discontinuance of levy on luxury hotels is useful for earning foreign exchange necessary for setting right imbalance in international payments and for importing equipment needed for economic development. But this step may not be of much direct help to the common man. Raising of excise duty on Tyres is a blow to transport industry resulting in the restriction of market and consequent reduction in production and economic development. Tax concession to investment on plant and machinery with imported know how for another five years is a sensible step in the direction of speeding up the process of industrial and also other aspects of economic development. Tax relief upto an income of Rs. 4,000 from government securities, bank deposits and Indian Company shares is useful to encourage savings, investment and development.

The rise in the rates of inland cover, cover and book-post and newspaper posting is a great blow to the common man. A burdensome duty on news print seriously damages the news paper industry as well as political and adult education necessary for the strengthening of democracy. Customs duty exemption to Calcium Ammonium nitrate and Ammonium sulphate is removal of burden already imposed. This should have been extended to some extent to other fertilizers also to boost up production income, investment and employment in the agricultural sector so that they might help the entire economy in so many ways providing revenue to Government. Excise duty concession to the manufacturers of asbestos fibre and yarn is useful for the small man in agriculture, cottage industry and also to those living in slums.

According to the Finance Minister, the major share of the increase in revenue amounting to Rs. 290 crores comes from the increase in auxiliary duties of customs while the excise duty increases will yield Rs. 196 crores. Increase in customs duties is a direct barrier to free international trade necessary for setting right the adverse balance of payments. The increase in excise duties, coupled with increase in customs duties, increases the

The gift that grows with your child....

CORPORATION BANK's

Vishal Cash Certificate

A birthday is a special occasion. A time of balloons and cake, love and laughter. Exciting colourful gifts......

Give your child an extra birthday present this year. A Vishal Cash Certificate from Corporation Bank. It'll grow with him. And be of immense value when he needs it most — at the start of his higher education.

A Vishal Cash Certificate costing Rs. 3,720 will be worth Rs. 10,000 ten years from now. One costing Rs. 5,005 will double its value in just seven years. Making it a very meaningful gift indeed.

Vishal Cash Certificates from Corporation Bank. Issued for maturity values of Rs. 100 and its multiples.

Period	Issue Price of Rs. 100
12 months	Rs. 92.80
24 months	Rs. 84.50
36 months	Rs. 74.35
48 months	Rs. 67.35
60 months	Rs. 61.00
72 months	Rs. 55.25
84 months	Rs. 50.05
96 months	Rs. 45.35
108 months	Rs. 41.10
120 months	Rs. 37.20

VISHAL CASH CERTIFICATES

A New Year Present for 1982 from Corporation Bank

CORPORATION BANK

Where your dreams come true

price spiral. This comes in the way of exports to increase. Perhaps the International Monetary Fund does not like such barriers in the way of free flow of trade between India and other countries. Therefore nothing like the influence of I M F can be found in the budget.

A Grim and Unexciting Budget

— NAVIN CHANDRA JOSHI

THE budget of the Union Government for 1982-83 has caused mixed feelings. While it has been hailed as one drawn on pragmatic lines, there have been expressions of despondency at it fails to create a climate that is invigorating. It is also said that in the wake of unabated global inflation, the Finance Minister could not have doled out more concessions and relief that were so eagerly awaited by all manner of people in services, trade, industry and so on. In any case, every budget has its plus and minus points. It is rather a difficult exercise. Nevertheless, one looks for certain things in a budget which are obviously needed for giving a boost to economic development. This aspect cannot be and should not be ignored. And it is here that the present budget draws a blank.

The problems of the corporate sector have been completely negleected. There is no new orientation given to our tax system, nor is there any improvement. The budget is supposed to support an increase in Plan expenditure of the order of 28 per cent without resorting to extra resources and as such, it is bound to be inflationary in nature. The Plan outlay of the Centre for 1982-83 has been stepped up by 27.6 per cent, to be financed by a budgetary support of Rs. 7,343 crores and internal and extra-budgetary resources of Rs. 3,657 crores. The internal and extra-budgetary resources of public sector enterprises account for 33.2 per cent of the Plan outlay as against 26.8 per cent the previous year. It is highly doubtful if our public enterprises will be able to raise resources of this magnitude with the present level of their managerial and operational efficiency.

Also, it is inconceivable that despite a hefty tax effort of Rs 533.58 crores, and taking credit for Rs. 250 crores from the proposed capital investment bonds, the budget leaves an uncovered gap of Rs. 1,365 crores. The revised estimate of the budgetary gap in 1981-82 is Rs. 1,700 crores—Rs.161 crores higher than planned, despite substantial additional revenues yielded by the repeated increase in administered prices of various commodities. Naturally, therefore, we have to keep our fingers crossed if we are not in for a deficit of more than Rs. 2,000 crores in 1982-83.

As for the Sixth Plan target of deficit financing to the tune of Rs. 5,000 crores, it has already been thrown overboard. More money is bound to be put into circulation, thus unleashing the spiral of inflationary pressures in a more aggravated form. Even as 1982 is the 'Year of productivity' to the common man, it has no practical relevance as there is going to be a further erosion in the purchasing power of his rupee. How much will be the acceleration in price rise will, however, depend on the macro effect of the taxes and excise duties, and on how much new money is created in relation to increases in output.

Even as the marginal relief has been given in excise duty on some items, there is no incentive given for value addition and for quality output. This has been a very weak aspect of our budgets which do not take care of improving the quality of output. The relief given is the same for all qualities of a product when actually, there must be differentiation made in this respect so that people are enthused to produce more as also better. There has to be a thrust given to value addition so that our products improve to compete in the international market. When this happens, our efforts in R & D will also gain a momentum. In Japan, an expenditure of the order of Rs. 20,000 crores was incurred during 1980-81 in R & D efforts when the country is already technologically advanced. Hence, it becomes all the more essential in this country to encourage efforts in improving our technology which impinges on the quality of our output.

As a result of the hike in import duties, the volume of imports is likely to fall. If it does not happen, then there is bound to be higher price through higher cost of production in items which have import content of raw materials. The Govenrment does not seem to be worried as, according to it, a certain amount of import substitution had taken place in the past as well. But then, import substitution is neither too easy nor a oneway traffic. It will rebound in our own exports.

What is needed in our economy is the implementation of all measures which help in maximising the industrial and agricultural output. Paradoxically, India has a high cost economy with low wage rates. India's share of the total world foreign trade is hardly 0.5 per cent in spite of having 14 per cent of the world's population. The total production of steel is a meagre 8.2 million tonnes compared to which production of steel in Japan, which has neither iron ore nor coal, is 120 million tonnes. The *per capita* income in India is only US $173 while in neighbouring countries like Philippines, South Korea and Singapore it is US $450, 810 and 890 respectively. In such a grim situation, obviously, the economy has not so far received the much-needed resilience boost. To my mind, the best bet for maintaining a higher rate of growth in 1982-83 would be going all out for maximum production out of the existing installed capacity. This is definitely possible if we unfetter the produciion process.

Already signs of recession exist in industries like textiles, tea, steel, jute, paper, fertilisers and what have you. If all types of controls continue, an overall recession in Indian economy is likely. Whiie the new imposts in the budget will make it harder than ever for increases in savings, the recessionary trends will be fanned further, resulting in stagnation. There will be further demand for higher wages contributing to escalation in project costs and non-developmental expenditure. The budgetary calculations on all these counts are bound to go awry.

Since light needs to be harnessed, Bajaj offers a comprehensive range to suit every need.

DECORATIVE
BJMP 420
BJGL 240
BJMP 240
INDUSTRIAL
BJFP 150
BJHBI 250/40
BJI 240 DP
BJEF 12/16/18
BJPTI 80/125
BJEF 22
BJMIP 80/125
STREET LIGHT

bajaj LUMINAIRES

The lighting people
since 1938.

bajaj

Heros' BE-339A

Could have been a Little More Considerate Towards the Poor

— K. SAIN *

AS the latest *Economic Survey* indicates, the union budget for 1982-83 could be presented at the opportune moment created by recovery of the economy and revenue boyancy, support from the I M.F. to the extent of Rs. 5000 crores over a period of 3 years and an observed falling rate of inflation. On the contrary, the country has to provide not only for its accelerated planned development but also for increased defence expenditure against probable dangers from the increasingly antagonistic political surroundings. The budget has to make a provision for 11 per cent increase in defence expenditure along with a 21 per cent increase in development expenditure over the preceding year. An attempt to balance rival claims in the economy is thus noticeable in the budget. Reliefs in wealth tax, reliefs for new enterprises, higher exemption to income from savings in Government securities and banks, tax exemption of fertilizers and hand pumps, etc. are intended to promote savings and investment in the country. But how far such incentives are going to augment production in the farm and the non-farm sectors is not clear, especially, in the context of rising prices.

Secondly, the proposal for a deficit financing of Rs. 1,365 crores for the fiscal year 1982-83, albeit lower than that for the preceding year, does not indicate mobilization of resources in quite a non-inflationary manner. In the preceding year, the actual deficit exceeded its original estimate. The rising trend in defence and other non-plan expenditures generates apprehension of further increase in deficit financing with its adverse effects on the price level and the cost of living and loans from I.M.F. and import backed by this loan may not be enough to contain inflationary potential inherent in such measures. There is further the impact of black money which may not be effectively tackled by such measures as Capital Investment Bonds and the Social Security Certificates.

Thirdly, in the background of rapidly declining value of money, the middle class salaried people could have reasonably expected a raising of the exemption limit of income tax at least to Rs. 20,000 and of the limit of standard deduction by another Rs. 1,000. The rather steep increase in the marginal rates of income tax for earnings at higher levels may also be considered as an invitation to further tax evasion.

Fourthly, reliefs in excise for additional production next year to mark the Productivity Year, reliefs to exporters able to export 10 per cent more, cash subsidies for such purpose, abolition of wealth tax on plantations for inducing more exports, etc. are commendable steps aimed at increasing production, export and exchange earnings. The full or partial exemption of a wide range of consumer's articles is welcome if it really means lower prices for the consumers. But past experience does not show that such exemptions will automatically be passed on to the consumers in the form of lower prices.

Finally, the budget proposals for 1982-83 do not seem to be free from irrationality on the part of the Government when the question of tax structure, shares of the States in revenue and sectoral balance is taken into consideration. The budget could have shown a little more favour to the poor and the middle class people by keeping the burdens of additional indirect taxes on items of daily necessities lower and by a higher allocation of planned expenditure for the farm sector and a larger provision for integrated rural employment scheme. What W. Arthur Lewis wrote two decades back for development of the newly developing economics remains still valid: "They must look instead to a balanced development".† Rise in railway fares with its adverse effects on costs of production and price level all round and higher postal charges affecting the common man cannot be considered as rational and impartial steps for the sake of equity, stability or development.

---

* Dr. K. Sain is Director-in-Charge, Comprehensive Scheme: Cost of Cultivation, Govt. of India, implemented by Bidhan Chandra Krishi Viswa Vidyalaya, West Bengal.

† W. Arthur Lewis — The Shifting Fortunes of Agriculture. Paper submitted to the International Agricultural Economic Conference, 1958.

Mr. Mukherjee could have Avoided Stepping up Postal Rates

— B. KUMAR

IN the prevailing economic conditions, efficacy of the Budget could be tested on the touchstones of several equally important and demanding objectives. This include reversal of the inflationary process, maintenance of growth rate at 7 per cent achieved during last year, rationalisation of tax structure which is long overdue, containing proliferation of black money, ensuring higher saving and investment, and postive tax relief in the strategic industrial sectors. The Finance Minister was faced with a dilemma in fixing priorities among these somewhat competing objectives.

The inflationary contents of the Budget cannot be brushed aside. The overall deficit amounts to Rs. 1,365 crores against Rs. 1,700 crores in 1981-82. Our experience has shown that budgetary deficits have always exceeded the estimates. For 1981-82 the deficit finance was estimated at Rs. 1,539 crores. In our country deficit finance constitutes the main source of high powered money supply.

The taxation measures to raise an additional sum of Rs. 535 crores mostly relate to indirect taxes. Excise duties and Customs are inflationary as they are shifted to the ultimate consumers. The higher percentage of indirect taxes to the total tax revenue is one of the main prime movers of the price line during the last two decades.

The other important objective of the Finance Minister had been to avoid placing "undue burden on the low income and middle income groups" who are the worst sufferers in the time of inflation. Although the Minimum Exemption limit for Income Tax has been retained at Rs. 15,000, for the salaried class people the effective limit would be Rs. 20,000 as the standard deduction (allowances given formarly for books and conveyance) limit has been raised from Rs. 3,500 to Rs. 5,000. Moreover allowance for provident funds, life insurance policies has also been raised from Rs. 5,000 to Rs. 6,000 as full deduction. The salaried group may escape Income Tax up to Rs. 26,000. This is the redeeming feature of the Budget in face of decline in the value of Rupee to 21.74 paise during 1980-81. The above concession will cause a loss to the exchequer to the tune of Rs. 21.58 crores

For the Sixth Plan, Rs. 21,137 crores have been provided for 1982-83 as against Rs. 17,469 crores of the last year — an increase of 21 per cent. The total Sixth Plan outlay is estimated at Rs. 97,500 crores. Hence a 20 per cent annual increase in the Plan outlays would be needed to meet the plan expenditures. However inflation has eroded the base of the Plan outlays. Considering the price rise, the real increase in Plan outlay is not more than 8 per cent. The Budget has virtually ignored the problem of black money. The bearer bonds of the last year could not fetch more than Rs. 875 crores. The higher rates of income tax above Rs. 60,000 income slabs may provide more disincentive to the productive efforts than curbing the generation of black money.

The distressing and controvercial feature of the Budget is the rise in the postal tariffs which the Government had already raised sometime back. By any standard, raising of 15 paise and 10 paise for envelopes and inland letter is exceedingly high. The higher railway freight and postal services will generate cost push inflation causing hardship to the common people. Transport and communications are important infrastructures which will produce adverse effect on the cost of operations of several essential sectors. The Government has now started to make a distinction between taxes and tariffs. While keeping the taxes in the background the tariffs on essential services are being raised.

A Zero-sum Exercise with In-built Inflation

— P. JEGADISH GANDHI *

CONTRARY to the Pre-Budget waves of optimism, the Maiden Central Budget of the Finance Minister, Mr. Pranab Mukherjee for the year 1982-83 has created mixed feelings among the various sections in society. But the Budget is presented against the background of several distinct domestic factors like the high real GNP, high propensity to save, improvement in industrial production, peaklevel production in foodgrains, down-hill journey of inflation and the buoyancy in central tax revenues as well as disturbing external trends like the deceleration in the growth of foreign remittances, decline in foreign exchange assets and a sharp decline in the terms of trade and balance of payments position.

The higher Plan outlay of Rs. 17,479 crores (an increase of 21 per cent) for 1982-83 will no doubt propel the engine of growth. Heavy doses of investment in the production of crude petroleum including refineries and petro-chemicals, coal and other energy sources, irrigation and Command Area Development, agriculture, Integrated Rural Development and Rural employment will certainly keep up the tempo of economic activity in vital sectors as well.

The aggregate receipts on revenue account (Rs. 17,131 crores) and capital account (Rs. 10,003 crores) works to Rs. 27,134 crores while the aggregate expenditure on both accounts (Rs. 18,227 crores plus Rs. 10,992 crores) comes to Rs. 29,219 crores leaving an overall deficit of Rs. 2,085 crores as against the bloated deficit of Rs. 1,700 crores in 1981-82. The massive tax effort to the tune of Rs. 470 crores and the possible receipts from capital investment bonds to the extent of Rs. 250 crores which abridge the uncovered deficit to an amount of Rs. 1,365 crores for 1982-83. This huge deficit is left even after the pre-Budget like in postal tariffs, passenger fares and freight charges and larger market borrowings.

No credit has been taken in Capital account for the amount of SDR 600 millions drawn against the loan from the IMF. Similarly, no advantage will be accruing to the Exchequer out of the credits that may be derived again in 1982-83 for nearly SDR 1.5 billions. It can, therefore, be argued that the effect of the cumulative deficit of Rs. 3,065 crores in two years (1981-82 and 1982-83) will be largely neutralised by the drawals from the IMF for over Rs. 2,100 crores. It remains to be seen how the RBI will utilise the rupees accruing against the utilisation of the IMF loan and whether they will be kept immoblised or utilised indirectly for other purposes.

On the other hand, it should be pointed out that the Budgetary deficit for the three years (1980-83) to the total of Rs. 5,040 crores has actually crossed the plinsoll mark of Rs. 5,000 crores for the entire Sixth Plan period (1980-85). If past experience is any guide, the ambitious market borrowings to the extent of Rs. 3,566 crores, the possible borrowings from the commercial banks and the mounting non-plan expenditure would bloat the deficit. Pump priming and compensatory spending are like costly drugs which should be

---

* Assistant Professor of Economics, Voorhees College, Vellore-632 001.

admnistered sparingly. Deficit financing may not necessarily fan the flames of inflation. If the new money is spent on tangible productive schemes, it may increase the level of income, output and employment. But deficit financing has shown two distinctive features in our economy; (a) multiplier effect on money supply and (b) acceleration effect on price level. The interaction of high money supply and price level has caused distortions in the allocation of scarce resources in the economy.

An increase in standard deduction in income tax, exemption for unavailed earned leave for retired persons, increased rate of deduction of Life Insurance and PF savings, increased minimum amount for pensioners, raised exemption limit for investment in Government securities, bank deposits, shares and units in Unit Trust, nil wealth tax on plantations and Social Security certificate and Capital Investment Bonds schemes will induce further savings thereby enlarging the investible funds in society. But at the same time, the Finance Minister has missed a chance to bring the marginal savers to the ambit of savings. Relaxation in the test of "residence" in India and other attractive concessions for non-resident employed Indians will definitely stimulate more flow of intward remittances. On the other hand, interest tax exemption, tax concession in investment allowance for plant and machinery with imported know-how and tax relief to exporters will prop up further investment in these areas of economic activity.

The Finance Minister contended that he has "taken care to see that resources are raised without building new inflationary pressures". No tax increase on essential items like crude petroleum, Kerosene and high speed diesel oil, duty exemption of common consumption items like pencils, ballpoint pens, refiles, erasers, laboratory wares, glass wares, thermos flask and its parts, candles, tooth brush, Braille typewriter, spectacles and spectele frames, domestic water heater, cooler and water handpumps, changes in the rate structure of man-made fabrics including polyester, tax exemption for imported content of life-saving drugs will provide oxygen to the people suffocating from inflationary spiral. But the steep rise in the rate of inland letter and postal envelopes and increased duty on mass comsumption articles like radios, tyres and Terylene will sponge off the purchasing power of both weaker sections and middle income groups.

Duty exemption of fertilizers of two categories including ammonium sulphate will further accelerate the rate of production in farm sector. The concession in the vital farm input will help to achieve the new target of 142.7 million tonnes in foodgrains production in 1982-83. Excise duty concession to 38 tariff items like raw materials, important industrial inputs and certain finished products, high exemption ceiling on value of tools and machinery, reduced import duty on internal combustion engines and components will enthuse the level of production in these areas.

However, better performance of public sector enterprises, reduction in the geometric increase in non-plan expenditure, geared-up public distribution channels, minimum reliance on bank credit and new money will go a long way, as it was pointed out in the 1981-82 *Economic Survey*, "to achieve a balance between investment requirements and consumption needs of a developing economy". To sum up: the 1982-83 Budget will become a zero-sum exercise without deflating the multiple effect of inflationary pressures in the economy.

A Balanced Budget but Inflationary Pressure Remains

— A. K. AGARWAL *

THE modest attempt in the budget to raise the plan investment for the current year needs to be appreciated. The plan outlays of the Centre, States and the Union territories for 1982-83 will be Rs. 21,137 crores as against Rs. 17,479 crores in 1981-82 i. e., 21 per cent increase over the previous year. An increased outlays of 1982-83 over the previous year for petroleum sector (Rs. 2,045 crores), irrigation (Rs. 2,133 crores), agriculture (Rs. 1,202 crores), coal (Rs. 877 crores), power (Rs. 929 crores), and integrated rural development programme (Rs. 190 crores) would promote the economy in a desired way. The National Rural Employment Programme is expected to generate employment of abont 350 million mandays in rural areas besides creating durable community assets. Therefore the accent of the current budget on this sector is justified.

To mark the 'productivity year', the 35 tariffs items, including some basic raw materials, industrial inputs and certain finished products have been included under a new scheme 'excise duty concessions' valid for one year. These include fertilisers, steel ignots and products, wires and cables, two and three wheeled motor vehicles, tractors, railway wagons, manmade fibres, tyres and papers etc. This will provide relief to the industrialists upto a certain extent. Replacement of price controls in the cement industry with a system of dual pricing policy and open market sales and to allow producers in the free trade zones to sell 34 per cent of their products in the domestic market, is the move long anticipated. This will encourage capital investment in the ement industry. But, at the same time, the raising of the taxes on cement would cost Rs. 3.17 more per bag of 50 kg. to the consumers.

The Finance Minister has tried to lighten the burden of income tax on middle income group by raising the standard deductions in income tax to 25 per cent against 20 per cent subject to ceiling of Rs. 5,000. It will involve a nominal loss of Rs. 1.56 crores to the Government. At the same time

---

* Dr. A. K. Agarwal is lecturer Government Degree College, New Itanagar-791 110, Andhra Pradesh.

DEPARTMENT OF ATOMIC ENERGY

Directorate of Purchase and Stores

On behalf of the President of India, the Director, Directorate of Purchase and Stores, Department of Atomic Energy, Bombay-400 001, invites tenders as detailed below :

1. DPS : BARC : EEQ : 5211 due on 1.4.82. 100 KV Capacitor Voltage Transformers, for Bhabha Atomic Research Centre, as per purchaser's specifications—2 Nos.

2. DPS : BARC : EEQ : 5218 due on 7 4.82. Supply, installation testing and commissioning of horizontal split casing centrifugal fan for Bhabha Atomic Research Centre.

3. DPS : BARC : FUR : 5559 due on 12.4.82. Safety Flow Fume Hoods provided with Exhaust Motor 230 V-50 H3 blower as per our tender specifications. 2 Nos.

4. DPS : BARC : PDS : EEQ : 31 due on 12.4.82. Manufacture, testing and supply of free standing, indoor, extensible skeleton type LT switchboard as per purchaser's specifications for Bhabha Atomic Research Centre.

5. DPS : STY : 1718 due on 13.4.82. Printing & supply of Envelopes in different sizes as per our specimen and tender specifications—10,82,225 Nos.

6. DPS : TAPS : TOOL : 517 due on 19.4.82. Ball thrust bearing—100 Nos.

7. DPS : NAPP : PPED : FAB : 129 due on 22.4.82. Preparation of shop drawing, fabrication, inspection, testing, guarantee and delivery at Narora Atomic Power Project Site of SS Dished Heads as per Purchaser's Tender document—2 Nos.

8. DPS : NAPP : PPED : FAB : 145 due on 23.4.82. Design preparation of shop drawings, manufacture, shop testing, inspection assembly, supply, crating and delivery of Filter Vessels and Filter Cartridge Support Assemblies for Narora Atomic Power Project as per Purchaser's Tender document.

9. DPS : NAPP : PPED : FAB : 168 due on 26.4.82. Fabrication and supply of Air Washer Plant as per Purchaser's Tender document—1 No.

10. DPS : BARC : PDS : 77 due on 26.4.82. Digital Storage Oscilloscope having vertical input DC 0 to 60 MHz Accuracy : + 3%—1 No.

11. DPS : NAPP : PPED : FAB : 171 due on 27.4.82. Preparation of shop drawing, supply of materials, fabrication, inspection, testing, shipment and guarantee of Carbon Steel and Stainless Steel Tanks as per Purchaser's Tender document—2 Nos.

12. DPS : BARC : EEQ : 5226 due on 27.4.82. High Current, low voltage stabilized power supply unit as per purchaser's specifications for Bhabha Atomic Research Centre.

13. DPS : HWP : FAB : 120 due on 28.4.82. Fabrication and supply of Forgings confirming to ASTM A 350 LF 2 as per Purchaser's Tender document—160 Nos.

14. DPS : NAPP : PPED : FAB : 172 due on 28.4.82. Fabrication and supply of Morpholine feed Tanks and Hydrozine feed Tanks as per Purchaser's Tender document—4 Nos.

15. DPS : RRC : MTL : 482 due on 28.4.82. Austenitic Stainless steel forged rounds and hollow bars as per tender specifications —3 Nos.

16. DPS : HWP : FAB : 121 due on 3.5.82. Design, detailing, fabrication, testing, inspection and supply of High Pressure Test Vessel and spares as per Purchaser's Tender document.

17. DPS : HWP : CAP : 629 due on 3.5.82. Sealant Pump handling D.M. water Cap. 2.7 tonnes/hr, at 30.0 kg/cm²g—1 No. cap. 1.0 tonnes/hr. at 60.0 kg/cm²g—5 Nos. as per purchaser's specifications.

18. DPS : TAPS : CAP : 126 due on 3.5.82. Heavy duty Centre Lathe Machine with standard accessories. Centre height : 450 mm., Centre distance : 5000 mm, Spindle bore : 110 mm–1 No.

19. DPS : NFC : GEN : 251 due on 4.5.82. Leather Safety Boots—6000 Pairs.

20. DPS : NAPP : PPED : FAB : 174 due on 4.5.82. Manufacture, inspection and supply of machined and zinc metalised external split shield as per Purchaser's Tender document—40 Nos.

21. DPS : BARC : FAB : 258 due on 4.5.82. Fabrication, inspection and supply of Wall Embedment Liners as per Purchaser's Tender document. Qty : 49 Nos.

22. DPS : MHD : FAB : 8 due on 5.5.82. Fabrication and supply of Water Cooled Stainless Steel Channels for ZINC System as per Purchaser's Tender document—1 No.

23. DPS : NAPP : PPED ; FAB : 173 due on 5.5.82. Design, preparation of shop drawing, manufacture, testing, inspection supply, packing, guarantee and delivery to Narora Atomic Power Project Site of Ion Exchange Vessel as per Purchaser's Tender document.

24. DPS : PPED : FAB : 382 due on 6.5.82. Preparation of shop drawing, supply of material, fabrication, inspection, testing, delivery and guarantee of Stainless Steel Tanks as per Purchaser's Tender document—4 Nos.

25. DPS : R-5 : CAP : 145 due on 17.5.82. Design, delivery at site, supply, installation, testing and commissioning of Heavy Water Vapour Recovery Plant with all accessories and controls, Heater, Condenser, Piping etc. as per purchaser's tender document—1 No.

26. DPS : NAPP : PPED : CAP : 107 due on 18.5.82. Design, manufacture, inspection, shop testing, overload testing, supply, transportation and guarantee of motor operated monorail hoists-Rated Capacity-8 tonnes as per purchaser's tender document—5 Nos.

Import Licence will be provided only if the items are not available indigenously except items at Sl. No. 1 to 5, 7 to 14, 16 & 19 to 24.

Tender documents priced Rs. 10 each for items Nos. 1, 2, 10 & 12 Rs. 25 each for item Nos. 3, 4, 5, 6, 8, 11, 14, 15, 20, 24 & 26 Rs. 35 each for item Nos. 7, 9, 16, 19, 22 & 25 Rs. 50 each for item Nos. 17 & 21 Rs. 75 each for item Nos. 18 & 23 Rs. 100 each for item No. 13 and General conditions of contracts priced 50 Paisa except items at Sl. No. 7 to 9, 11, 13, 14, 16 and 20 to 24 can be had from the *Finance and Accounts Officer, Department of Atomic Energy, Directorate of Purchase and Stores, 3rd Floor, Mohatta Building, Palton Road, Bombay - 400 001* between 10 a.m. and 1 p.m. on any working day (except on Saturday). Tenders will be received upto 3 p.m. on the due date shown above and will be opened at 4 p.m. on the same day. The right is reserved to accept or reject lowest or any tenders in part or full without assigning any reasons.

davp 645 (519) 81

the income tax rate on higher income slabs between Rs. 60,001 and Rs. 70,000 raised from 50 per cent to 52 5 per cent and on income between Rs. 85,000 to 1 lakh from 55 per cent to 57.5 per cent, has been raised. It would yield Rs. 3 24 crores in a full year and Rs. 2 43 crores in the year 1982-83. The raising of income tax rate would cost more to the income tax payee from Rs. 275 to Rs. 688 in a year. Although this increase in payment of income tax is insignificant to the higher income group but this goes against the recommendations of the Direct Taxes Enquiry Committee.

There are certain other concessions granted to the agriculturists to provide them relief and further investment in the plantation industry. For example, wealth tax on tea, cardamom, coffee, and rubber plantations is exempted. It will help in more investment in this sector and thereby raising the production of these exportable commodities which in turn will earn more foreign currencies. This will help in the improvement of balance of payment position. The exemption from custom duty to certain fertilisers such as calcium ammonium nitrate and ammonium sulphate will provide relief to the farmers.

The incentives for savings in the form of provident fund contributions and life insurance premia are not more attractive. The return on these are so low that in an era of 8 per cent inflation even the additional tax exemptions declared in the budget fail to make them attractive. However, the introduction of Capital Investment Bond will provide Rs. 250 crores as announced in the budget. The main attraction of the bond is interest of seven per cent which is free of tax. Similarly, the issue of Social Security Certificates will prove particularly attractive to large numbers in rural areas and persons of small means. These two schemes will not only encourage savings but will further help the rate of capital growth.

The most striking feature of the budget is that it has proposed to hold down the budgetory deficit to Rs. 1,365 crores. The budget for the years 1980-81 and 1981-82 had anticipated an overall deficit of Rs. 1,445 crores and Rs. 1,539 crores, but in practice, it turned out to be Rs. 1,975 crores and Rs. 1,700 crores respectively. Similarly the deficit of Rs. 1,365 crores for 1982-83 is likely to be much more than that. The deficit for the first three years of the Sixth Plan will cross the target of Rs. 5,000 crores for deficit financing in the plan period. A higher dose of deficit financing is bound to have adverse impact on prices and hence on the real size of the plan outlays and on the rate of growth in the economy.

Substantial revenues have been planned to be raised by means of raising railway fares and freights. The postal rates have been enhanced to raise the additional revenue to the extent of Rs. 26 crores. The hike in the railway fares and freights will cost more to the people. Another important aspect of the budget is resource mobilisation through indirect taxes. Greater reliance on indirect taxes for mobilisation of resources will fuel the inflation. The tax efforts are estimated to yield additional resources of the order of Rs. 533 crores, of which Rs. 391.55 crores would come from custom duty epecially from auxiliary duty i. e., Rs. 290 crores. However, exemption in special cases of imports of crude petroleum and bulk petroleum products and life saving drugs (10 in number) have been granted. The raising of import duties is bound to increase the protection for indigenous manufactures. But in the case of goods with inelastic demand, industrial raw materials, intermediates and machineries etc., there would not only be further cost push inflation but also a larger drain on foreign exchange resources. The same is true in cases of those goods on which excise duty has been raised.

Short-term Problems are Tackled Effectively

— MADHURI SRIVASTAVA *

IN order to accelerate the rate of economic development, it is necessary (i) to control inflation for the sake of maintaining stability; (ii) to increase the rate of production; (iii) to encourage to increase the ratio of savings to national income and (iv) to provide social justice to all classes of the society. The Union Budget has to be judged by these criteria.

The total receipt of the budget for 1982-83, the third year of the Sixth Plan, is Rs 27,854 crores (including Rs. 720 crores as a effect of budget proposals) and total expenditure is Rs. 29,219 crores, and uncovered deficit is Rs. 1,365 crores. So far as the amount of deficit financing is concerned, it is less than the budget estimates and actual amount of deficit financing in the last year which were Rs. 1,539 crores and Rs. 1 700 crores respectively. The economy can probably absorb this much of amount of deficit financing.

In the budget, no direct measures have been taken for the mitigation of the effect of the inflation and the reduction of flow of concealed incomes into the parallel economy. It is claimed by the Finance Minister that inflation had been arrested and the rate of inflation for the week ending February 6, 1982, had come down to 4 . 1 per cent as against 15.7 per cent during the corresponding period last year but this is not fully true. Though the wholesale price index has shown a declining tendency, there is no sharp decline in retail price index.

On February 23, 1982, the Railway budget has been presented in which passenger fares and freight rates have been increased by 15 per cent. In the budget proposals, excise duty on tyres has been raised from 60.5 per cent to 66 per cent *ad valorem*. This would increase transportation costs. In addition to this, the hike in postal and telephone charges — a 43 per cent rise in the

---

* Dr. Madhuri Srivastava is Lecturer, Department of Economics, Banaras Hindu University, Varnasi-221 005.

New Arrivals January 1982

सत्यमेव जयते

GOVERNMENT OF INDIA PUBLICATIONS

S. No.	Title	Price
1.	Hand book on Vocational Guidance (Print 1981) PDGET. 231.	Rs. 17.20
2.	Basic Statistics Relating to the Indian Economy 1950-51-1980-81 (Print 1981). PCSC. 16.51.80.	Rs. 22-40
3.	Project Profiles on Reserved Items Vol. III. (Print 1981). PDCSI.63.III.	Rs. 40.00
4.	Folk Entertainment in India. (Print 1981) PED.540.	Rs. 16 00
5.	Diplomatic List Part II. June 1981. (Print 1981) PEAM.51.6.81.	Rs. 3.00
*6.	Interim Budget Volume for 1981 Vol. I. (Print 1980-81). PFD.16.81.	Rs. 60.00
7.	The Delhi Municipal Corporation Act 1957. (As on the Ist May 1980). (Print 1980) Act 66 of 1957. (Diglot)	Rs. 28.85
8.	The Finance Act 1981 (Print 1981) Act 16 of 1981.	Rs. 5.95
9.	The Indian Contract Act 1872 (As modified upto the 31st December 1980). (Print 1981) Act 9 of 1872.	Rs. 6.50
10.	Basic Road Statistics of India 1975-76 to 1978-79 (Print 1981) PMT.106.75.79.	Rs. 21.65
11.	The Merchant Shipping (Load Line) Rules 1979. (Print 1981). PMT. 177.	Rs. 15.20
*12.	Evaluation of Food for Work Programme (August-October 1979). Final Report. (Print 1981) PPC.237	Rs. 12.00
13.	प्रबोध अभ्यास पुस्तिका (प्रिन्ट 1981) पी. डी ओ. एल. 3	रु० 5.10
14.	प्रबोध लेखन-बोधन पुस्तिका (प्रिन्ट 1981) पी. डी. ओ. एल. 5	3.65
15.	प्रबोध पाठमाला (प्रिन्ट 1981) पी. डी. ओ. एल. 7	रु० 4.15
16.	प्रबोध उच्चारण पुस्तिका (प्रिन्ट 1981) पी. डी ओ. एल. 4	रु० 2.80
17.	प्रवीण लेखन बोधन पुस्तिका (प्रिन्ट 1981) पी. डी. ओ. एल. 8	रु० 3.45
18.	प्रवीण उच्चारण वाचन पुस्तिका (प्रिन्ट 1981) पी, डी. ओ एल. 7	रु० 1.70
19.	भूमि विज्ञान चयनिका Earth Science Digest (Print 1981) PED.526.	Rs. 19.00

davp 81/334

For your requirments of Publications released by various Ministries Departments of the Government of India, the Periodicals and Gazette of India (all parts) Please Contact any of our Sales Depot Counters.

1. **Kitab Mahal, Baba Kharak Singh Marg, State Emporia Unit No. 21, New Delhi. Tel. No. 343708.**
2. **Book Depot, K.S. Roy Road, Calcutta Tel. No. 233813**
3. **Sale Counter, Udyog Bhavan, Gate No. 13, New Delhi. Tel. No. 372082.**
4. **Sale Counter, U.P.S.C., Dholpur House, New Delhi. Tel. No. 383991.**
5. **Sale Counter, Headquarters, Civil Lines, Delhi-110054. Tel. No. 227821-25, 227800.**
6. **Sale Countor, Central Revenue Building, New Delhi (Custom Gate).**
7. **Sale Counter, Delhi High Court (Room No. 264)**

These Publications can also be had from our authorised agents and Sale and Return agents (Including State Governments) all over the country and abroad.

Address your enquiries to :

BACHINT RAM ASSTT. CONTROLLER (SUPPLY)	AMRIK SINGH CONTROLLER OF PUBLICATION

***These Publications are not yet released for sale for want of instructions from the Sponsoring Departments.**

price of envelope and 40 per cent rise in the price of inland letters, will not only hit hard common man but will adversely affect business community as it will increase correspondence charges related to their business and will indirectly be reflected in the cost of production and prices.

Again, the dual pricing scheme for cement will encourage corruption and black marketing of cement. The impact of the proposed increase in excise duty accompanied with a basic custom duty of 10 per cent would push up the price of cement. Similarly the hike of Rs. 250 per tonne in the price of imported newsprint couppled with the budget levy of Rs. 825 per tonne, will raise the selling price of newspapers.

In an attempt to increase production, certain tax-reliefs have been announced. These are: (i) exporters who exceed their target by 10 per cent will enjoy tax relief; (ii) certain fertilizers such as calcium, ammonium nitrate and ammonium sulphate will be totally exempted from custom duty; (iii) mercerised manmade blended yarn in handloom sector will be exempted from excise duty; (iv) some duty concessions will also be available for cheaper variety of footwears; (v) wealth tax on tea, cardomon and some other plantation is abolished and (vi) 43 new items of capital equipment and 13 new items of raw materials and components used by the electronic industry would enjoy import duty concessions.

These measures are expected to increase production but increase in auxiliary duties of customs by five per cent would raise the cost of investment project. The industries are already facing financial stringency and additional requirement of funds would hit investment levels. With the increase in project cost, the viability of new units will also be affected. Again, there is no worthwhile incentive for modernisation of plant and machinery and there is not any relief in corporation taxation.

In order to provide encouragement for savings, two new schemes have been introduced. The first is a Social Security Certificate in which an individual between the age of 18 and 45 can invest up to Rs. 5,000, which will triple in 10 years. The second is the Capital Investment Bond. The bonds will have a maturity of 10 years and carry an interest rate of seven per cent, free of income-tax. This will also be exempted from wealth tax. These bonds are designed to attract a larger flow of private savings for public sector investment.

Increase in savings and production is meaningfull only when all the classes of society enjoy social justice. In this connection certian measures have been taken. As a measure if relief to middle salaried section, standard deduction in income-tax has been raised from 20 to 25 per cent subject to a ceiling of Rs. 5,000, leave encashment benefit to employees on retirement has been given, ceiling from Rs. 3,000 to 4,000 of income from investment in bank deposits has been raised and the scheme of deduction in respect of LIC, PF, and other long-term savings has been liberalized.

In addition to this, life saving drugs and medicines are fully exempted from duty and to provide relief to middle and poor section of society, excise duty exemption on pencils, pens, thermos flasks-water coolers, candles, tooth brushes, spectacles, handpumps, Braile typewritters has been announced. Again, the budget has tried to fulfil the objectives laid down in the plan by lifting a total 30 lakhs families above poverty line. In this respect, there is provision of greater outlay for programmes related to the weaker section of the society. Twenty-five thousand villages are under electrification programme and electricity will be given to 25 lakhs pumping sets, Rs. 354 crores will be spent for this purpose. Rs. 127.5 crores have been provided for forty-five thousand villages having drinking water problems. In addition to this, the integrated rural development programme has been allotted Rs. 190 crores and a provision has also been made for generating employment about 350 million mandays in rural areas. All in all the budget for 1982-83 has tackled short-term difficult situations quite effectively and has also opened the ways for economic development.

MASSIVE OUTLAY FOR RURAL RECONSTRUCTION

The Centre has provided Rs. 2,542 crores for rural reconstruction in the Sixth Plan. this is 350 per cent more than the Central sector outlay in the Fifth Plan. The major thrust of the Sixth plan is on strengthening the socio-economic infrastructure of development in the rural areas and alleviating rural poverty. Three broad categories of programmes have been identified for accelerated rural development. They are (a) resource and income development programmes for the rural poor like Integrated Rural Development Programme; (b) Special Area Development Programme like Drougt Prone Area Programme and Desert Development Programme; and (c) Works Programme for Creation of Supplementary Employment Opportunities. The outlay on Integrated Rural Development Programme goes upto Rs. 1,500 crores against Rs. 174.45 crores provided for the SFDA Programme in the Fifth Plan. The outlay for Desert Prone Area Progarmme (DPAP), similarly, has been increased from Rs. 181.50 crores in the Fifth Plan to Rs. 350 crores in the Sixth Plan. For Desert Development Programme (DDP) also the outlay has been increased by almost 16 times, from Rs. 6.10 crores in the Fifth Plan to Rs. 100 crores in the Sixth Plan.

STEEL PRODUCTION GOES UP

During April-October, 1981 the six integrated steel plants produced 3.97 million tonnes of saleable steel and 4.84 million tonnes of ingot steel. The corresponding figures for the same period last year were 3.21 million tonnes of saleable steel and 4.05 million tonnes of ingot steel. This information was given by Mr. Pranab Mukherjee, Minister of Steel and Mines, at a meeting of the parliamentary Consultative Committee attached to his Ministry.

The Minister said that the production of the public sector steel plants was 3.73 million tonnes of ingots and 3.08 million tonnes of saleable steel representing an increase of about 24 per cent ingot steel and 30 per cent in saleable steel over the corresponding production performance of the last year.

1982-83 BUDGET STATISTICS

BUDGET AT A GLANCE

(In crores of Rupees)

REVENUE RECEIPTS	1981-82 Budget	1981-82 Revised	1982-83 Budget
Tax Revenue	14668	15754	17614 +533*
Less—States' Share of Tax Revenue	4131	4274	4716 +63*
Net—Centre's Tax Revenue	10537	11480	12898 +470*
Non—Tax Revenue	3790	3893	4233
Total-Centre's Revenue	14327	15373	17131 +470*

REVENUE DISBURSEMENTS	1981-82 Budget	1981-82 Revised	1982-83 Budget
General Services	4591	4588	5606
Defence Services	3794	4136	4599
Social and Community Services	1073	1091	1253
Economic Services	2961	3153	3405
Grants in-aid to States etc.	2880	2980	3364
Total Revenue Disbursements	15299	15948	18227
Revenue Surplus + Deficit —	(-) 972	(-) 575	(-) 1096 (+)470*

CAPITAL RECEIPTS	1981-82 Budget	1981-82 Revised	1982-83 Budget
Loan Recoveries	1950	2240	2513
Market Loans (Net)	2800	2900	3200
Special Bearer Bonds	800	875	...
External Loans (Net)	1000	1060	1472
Other Receipts	2455	2406	2818 +250*
Total-Capital Receipts	9005	9481	10003 +250*
Total Receipts	23332	24854	27134 +720*
Overall Deficit	1539	1700	2085 –720* 1365

CAPITAL DISBURSEMENTS	1981-82 Budget	1981-82 Revised	1982-83 Budget
General Services	74	32	257
Defence Services	406	464	501
Social and Community Services	203	182	185
Economic Services	3403	3556	3768
Loans and Advances	5486	6372	6281
Total-Capital Disbursements	9572	10606	10992
Total Disbursements	24871	26554	29219

---

* Effect of Budget proposals.

DETAILS OF REVENUE RECEIPTS

(In crores of Rupees)

	1981-82 Revised	1982-83 Budget
A. Tax Revenue		
Customs	4140.00	4606.00
		+391.35*
Union Excise Duties	7501.34	8328.75
		+196.18*
Corporation Tax	1962.00	2382.00
Income Tax	1520.00	1622.00
		-48.00*
Estate Duty	17.00	17.00
Taxes on Wealth	75.00	80.00
Interest Tax	200.00	220.00
Gift Tax	6.75	6.75
Hotel Receipts Tax	5.00	6.00
		-6.00*
Other Heads	327.23	346.04
		+0.05*
Gross Tax Revenue	15754.32	17614.54
		+533.58*
Less-States' share of Taxes & Duties		
Union Excise Duties	3240.28	3558.97
		+99.98*
Income Tax	1016.88	1142.28
		-35.90*
Estate Duty	16.50	14.34
Hotel Receipts Tax	0.82	0.82
		-0.82*
Total	4274.48	4716.41
		+63.26*
Net Tax Revenue	11479.84	12898.13
		+470.32*
B. Non-Tax Revenue		
Interest Receipts	2165.20	2364.28
Dividends and Profits	360.55	323.57
Other Non-Tax Revenue	1367.45	1544.55
Total Non-Tax Revenue	3893.20	4232.40
Total Revenue Receipts	15373.04	17130.53
		+470.32*

---

* Effect of Budget proposals.

CAPITAL RECEIPTS (Major Heads)

(In crores of Rupees)

	1981-82 Revised	1982-83 Budget
Market Loans	2900.25	3200.46
Gross Borrowings	3187.00	3566.00
Less-Repayments	286.75	365.54
Special Bearer Bonds	875.26	...
External Loans	1059.94	1472.27
Gross Borrowings	1485.78	1925.54
Less-Repayments	426.84	453.27
Recovery of Loans and Advances	2240.00	2513.00
State and Union territory Governments	1368.00	1643.00
Others	872.00	870.00
Small Savings	1300.00	1400.00
Provident Funds	320.00	330.00
Special Deposits of Non-Government Provident Funds	675.00	700.00
Other Receipts	110.16	387.65†
		+250.00*
Total - Capital Receipts	9480.61	10003.38
		+250.00*

---

* Receipt from Capital Investment Bonds.

† Includes Rs. 161.23 crores on account of securities for subscription to IMF.

CAPITAL DISBURSEMENTS (Major Heads)

(In crores of Rupees)

	1981-82 Revised	1982-83 Budget
General Services	495.70	757.77
Defence Services	464.32	501.30
Other General Services	31.38	256.47*
Social and Community Services	182.19	185.43
Economic Services	3556.33	3767.75
Loans and Advances	6371.50	6281.01
Loans and Advances to State and Union territory Governments	3611.63	3972.93
Loans for Social and Community Services	36.71	58.89
Loans for Economic Services	2405.36	2024.35
Advances to Foreign Governments	218.27	126.79
Other loans	99.53	98.05
Total Capital Disbursements	10605.72	10991.96

---

* Includes Rs. 161.23 crores on account of subscription to IMF in the form of securities.

PLAN OUTLAYS 1982-83 : CENTRE, STATES AND UNION TERRITORIES

(In crores of Rupees)

Head	Centre	States ‡	Union territories	Total
I. Agriculture	508.19	666.18	27.42	1201.79
II. Rural Development	502.66	643.26	6.64	1152.56
III. Special Area Programmes	–	248.41	–	248.41
i) Hill areas	–	42.00*	–	42.00*
ii) Tribal areas	–	95.00	–	95.00
iii) North Eastern Council	–	80.00	–	80.00
iv) Development of backward areas	–	31.41	–	31.41
IV. Irrigation and Flood Control	100.00	2181.10	36.24	2317.34
V. Energy	3766.92	2967.74	53.15	6787.81
i) Power	929.26	2967.74**	53.15	3950.15**
ii) Petroleum	1938.86	–	–	1938.86
iii) Coal	877.00	–	–	877.00
iv) New and Renewable Sources of Energy	21.80	–	–	21.80
VI. Industry and Minerals	2578.74	443.61	12.59	3034.94
i) Village and Small Scale Industries	174.93	154.97	10.42	340.32
ii) Large and Medium Industries	2403.81	288.64	2.17	2694.62
VII. Transport	1756.75	716.42	76.83	2550.00
VIII. Communications and Information and Broadcasting	607.19	7.89	0.79	615.87
IX. Science and Technology	183.97	4.40	–	188.37
X. Social Services	951.80	1727.92	176.04	2855.76
i) Education	138.00	346.50	41.67	526.17
ii) Health	120.00	247.18	25.43	392.61
iii) Family Welfare	245.00	–	–	245.00
iv) Housing	75.44	221.23	28 50	325.17
v) Urban Development	20.70	145.84	25.74	192.28
vi) Water Supply and Sanitation	130.00	535.03	44.85	709.88
vii) Welfare of Scheduled casts, Scheduled tribes, & other backward classes	50.90	136.72	2.53	190.15
viii) Special Central additive for Scheduled castes component Plans	120.00	–	–	120.00
ix) Social Welfare	40.00	23.17	2.82	65.99
x) Nutrition	1.76	41.72	2.52	46.00
xi) Labour and Labour Welfare	10.00	30.53	1.98	42.51
XI. Others	43.78	136.76	3.76	184.30
TOTAL (I to XI)	11000.00	9743.69	393.46	21137.15

---

‡ Includes provisional sectoral outlays for West Bengal as its Plan outlay has not yet been finalised.

* Excludes Rs. 70 crores for Uttar Pradesh which has been reflected in the State's Sectoral Outlays.

** Excludes Rs. 23 10 crores of power component of N.E.C. programmes and Rs. 4.17 crores of power component of Ladakh Plan in Jammu & Kashmir.

SOUTHERN
ECONOMIST

April 1, 1982

CONTENTS

EDITORIALS 1
Karnataka's Finance;
Two More Deficit Budgets

CURRENT TOPICS 3
The Sixth Plan and the Budget; Dual Pricing Policy for Cement Welcomed; Indo-British Trade; Will Maruti Go In For Japanese Tie-Up?

GLASS HOUSE GOSSIP 5

SPECIAL ARTICLES 7
Pranab Mukherjee's Quick-fix Operation
By S. V. Char
Inequalities in Irrigation Potential and their Effect on Agricultural Production
By P. Krishna Mohan and L. Krishna Mohanarao
Growth Rates of Irrigation—A Case Study Andhra Pradesh and Karnataka
By P. Devasena Naidu

BOOK REVIEWS 19
Pros and Cons of IMF Loan

COMPANY NOTES 20
Larsen and Toubro; Good Year India; Walchandnagar; Trichy Steel Rolling

SOUTHERN ECONOMIST
106-108, Infantry Road
(Saleh Ahmed Building)
Bangalore - 560 001
Phone: 52330

Published on
1st and 15th of every month

Subscription Rates:
Annual Rs. 50 (Inland)
Fifteen Dollars (Foreign)
Single Copy Rs. 2-25

Karnataka's Finances

13

THE Karnataka budget for 1982-83 has several redeeming features but the uncovered deficit of about Rs. 65 crores is not one of them. The fact that many other state budgets have left larger deficits uncovered is not a good enough argument to justify this gap. The simple truth is that the state's revenues are booming, as can be seen from the fact that in 1981-82, revenues have improved from an estimated figure of Rs. 1,037 crores to Rs. 1,147 crores in the revised estimates. Tax revenues under major heads like commercial taxes and excise have shown marked improvement. As a result, the anticipated overall deficit of Rs. 97 crores has come down to Rs. 8.90 crores in 1981-82.

The buoyancy that was witnessed last year is expected to continue in 1982-83 when the accruals under the revenue account are expected to go up from Rs. 1,147 crores (R.E.) in 1981-82 to Rs. 1,251 crores in 1982-83. And, inspite of a spurt in revenue expenditure under various heads, the budget presented by the Finance Minister, Mr. Veerappa Moily, on March 17, shows a surplus of Rs. 72 crores on the revenue side. On the capital account too, the estimated receipts in 1982-83 show an upward trend but capital disbursements are estimated at a much higher level with the result that the budgeted deficit on capital account is about Rs. 164 crores, against Rs. 114 crores (R.E.) in the previous year. Including the minus closing balance of Rs. 8.90 crores for 1981-82, the financial year beginning April 1 will end with a closing balance of over Rs. 100 crores. Taking into account the accruals from additional taxation (Rs. 25 crores) and the impounding of arrears of dearness allowance (Rs. 11 crores) the overall deficit for the year is reckoned at Rs. 64.77 crores.

It is against this background that one has to analyse Mr. Moily's budgetary exercise. The Finance Minister has introduce a number of changes in the sales tax structure and, with plus and minus aspects cancelling out one another, the state exchequer gains to the extent of Rs. 5.60 crores from the sales tax changes. More controversial is the tax on the entry of goods which was introduced as a substitute for the Octroi now abolished. The increases effected in the entry tax on several commodities to fetch an extra Rs. 7 crores in 1982-83 have come in for sharp criticism. Similarly, the widening of the coverage of the profession tax to include more professions is criticised on the ground that it will open the door for more litigation. Already, the High Court has struck down certain provisions of this tax.

True, the inflationary impact of the budget would have been zero if Mr. Moily had chosen not to impose any new levies but with a heavy commitment to raise additional resources for financing the state's Sixth Plan (Rs. 2,265 crores excluding irrigation projects pending the Centre's approval) he could not possibly have let off the tax payer lightly. The latest review of the resources position reveals that there is likely to be a shortfall of Rs. 406 crores in the resources to be mobilised to finance the state sector's share Rs. 1,726 crores. This provides a justification for mobilising additional funds even on a larger scale.

Mr. Moily's budget also reveals that the tempo of development has been maintained. The size of the annual plan has been stepped up from Rs. 419 crores in 1981-82 to Rs. 475 crores in 1982-83, leaving aside the cost of irrigation projects in the Cauvery basin. The budget accords a high priority for irrigation and power and ear-marks substantial amounts for the on-going projects in these two sectors. Rural electrification will get a special boost as also the energisation of pumpsets. The budget also lays special emphasis on the minimum needs programme and on strengthening the infrastructure. All in all, Mr. Moily can be said to have made an earnest effort to exploit the resources of the state in the best possible manner in order to rise the living standards of the people of Karnataka.

Two More Deficit Budgets

THE budgets of Maharashtra and Andhra Pradesh reveal deficits of varying magnitude despite the boom in the tax revenues of the two states. The 1982-83 budget of Maharashtra, which would have shown a nominal deficit but for the intrusion of the plan schemes, reveals a gap of Rs. 51.42 crores. The Maharashtra budget is cast in a conventional mould, with a pronounced bias against luxury items. The only novel feature of the budget is that the Finance Minister, a southerner, read his budget speech in chaste Marathi. The budget has aroused the ire of the TV viewers of Bombay and other places. They now have to pay Rs. 100 annually by the way of a tax on each set. Whether a state Government is within its right to levy a tax on television sets is a question on which clarification is sought by the TV users in the state. Of course, no tears will be shed for the addicts of beer and hard drinks who have to pay more for what they imbibe. The Maharashtra budget is development-oriented in that it makes liberal allocations for power, social services and agriculture.

Since the Andhra Pradesh budget is a vote-on-account budget, no new levies have been proposed. The budget, as it stands, reveals a deficit of Rs. 29 crores, despite the fact that the tax revenues have shown unusual buoyancy. As in the past, the bulk of the budgetary allocations goes to irrigation and power. The annual plan outlay has been stepped up from Rs. 539 crores in 1981-82 to Rs. 610 crores in 1982-83. By and large, the outlook for the state's economy is good. Food production in 1981-82 will be a record 108 lakh tonnes and power generation has risen by 26 per cent. These and other encouraging signs indicate that Andhra Pradesh is poised for a take off.

SOUTHERN ECONOMIST : TWO DECADES

(SPECIAL NUMBER : MAY 1 1982)

Southern Economist, which commenced publication on May 1, 1962, will be completing two decades on May 1, 1982.

Twenty years in the life of an independent economic journal is not a small period, more so when one considers that this journal scrupulously avoided compromising its independence in the face of obvious economic compulsions.

What is the record of *Southern Economist* during these two decades? It is for the readers to judge. And we greatly value their views. Speaking for ourselves, we have, in a small way, stimulated a lively debate on the economic developments of the sixties and the seventies.

Any one who has read "India — the Turbulent Half-Decade" by the editor will testify to the fact that we have provided a frank and fearless commentary on the political happenings in the country. We have also been instrumental in bringing to light new economic talent by publishing articles by scores of budding economists.

During these two decades — 1962 to 1982 — *Southern Economist* has published more than 2,000 articles touching on various topics bearing on development. There is hardly an area of the economy which remains untouched by *Southern Economist*.

To mark the completion of two decades, we are bringing out a special number on May 1 1982. Economists who have co-operated with us all these years may please send articles for possible use in this special number. The last date is April 17.

— Publisher

CURRENT TOPICS

The Sixth Plan and the Budget

THE plan outlay for 1982–83 is of the order of Rs. 11,000 crores as against Rs. 8,619 crores during 1981–82. It is interesting to note that budgetary support for public sector enterprises has been reduced from 33.2 per cent to 26.8 per cent. The units have to raise the balance amount internally, as well as through extra budgetary resources such as Euro–dollar loan. The plan outlay for the States and Union territories is Rs. 10,137 crores as against Rs. 8,860 crores in 1981–82. The overall plan outlay for the Centre as well as the States aggregates to Rs. 21,137 crores which is a 21 per cent increase over Rs. 17,479 crores during the previous year. The crucial sectors which benefit from the increase in outlay are mainly oil exploration and drilling, petrochemicals, coal and power. In other words, the energy sector accounts for as much as 34 per cent of the outlay and constitutes a 62 per cent increase.

Under the 20-point programme, irrigation and command area development, agricultural and integrated rural development programmes, national rural employment programmes, scheduled caste development corporation, rural water supply programme, rural electrification, social forestry, family planning, etc. claim Rs. 5,130.30 crores or about a quarter of the aggregate plan outlay for the Centre and the States. The investment in schemes connected with the 20-point programme is expected to reach social justice and welfare to the weaker sections of the society.

While the government must be complimented for substantially increasing the financial outlay for the plan, one wonders whether, in real terms, it is so. Considering the sharp escalations in capital cost as well as the leakages in the various social welfare programmes, the increase in outlay in real terms seems to be negligible. Secondly, since the 20-point programme was formulated as late as January 1982, a long time after the 6th Plan was drawn up, it has meant diversion of resources from those sectors and industries mentioned in the plan document. Thus, the plan exists merely on paper, the crucial variables such as deficit financing, resources, physical targets as well as the input-output balances themselves having gone awry. The demographic factor as derived from the 1981 Census has also faulted the plan estimates. What is also disconcerting is the lack of concern for reducing the capital-output ratio by avoiding wasteful practices such as over-dimensioning of production facilities and thereafter idling them.

Dual Pricing Policy for Cement Welcomed

THE new policy for cement, announced by the Finance Minister at the time of presenting his budget for 1982–83 has been welcomed both by the cement industry and by the general public. Although the budget imposed increased excise and customs duties on cement to yield a hefty sum of about Rs. 200 crores, the industry has not voiced any serious protest, the assumption being that part of what was going to the cement dealer and the corrupt politician would now go to the Government.

Under the dual pricing policy involving partial decontrol, more or less in line with sugar, the existing cement units will be allowed to sell one–third of their output in the open market at a price determined by the industry while the rest, namely, two–thirds, will be sold as levy cement at controlled price which is indicated at Rs. 37 a bag. According to the industry's spokesmen, the non–levy cement will be available to the users at around Rs. 65 per bag. The users may consider even this as a high price but they will do well to realise that when the commodity was in the grip of black–marketeers and unscrupulous politicians, it was not available even at Rs. 140 a bag.

Under the revised pricing policy, the new units that are coming up will have a built–in incentive to produce more since those which start production after January 1 will be allowed to sell 50 per cent in the open market. Another incentive that the new policy provides to the producers is that any production in excess of the installed capacity will be allowed to be sold in the free market. It may be doubted if many units will be able to avail of this advantage since the vagaries in the supply of coal and power shortages will continue to act as hurdles to achieve full capacity utilisation, let alone exceed it.

Be that as it may, the outlook for cement industry is reasonably good. As Mr. N. D. Tiwari, Industry Minister, pointed out in the Lok Sabha, cement production next year is estimated at 26 million tonnes — 22 million tonnes from the old plants and 4 million tonnes from new units. With the addition of 2 million tonnes of imported cement, the total availability should be around 28 million tonnes. With as many as seven units scheduled to commence production by the end of 1982, the supply position should considerably ease in 1983. In view of the sizable additions to existing capacity in the coming years, the Government can even think of completely doing away with cement control and let "water find its own level". Decontrol will benefit both the consumers and the manufacturers.

Indo-British Trade : Bright Prospects

INDO-British trade has taken on a new dimension over the last few years as the Indian economy has grown and diversified. The prospects for continuing collaboration have never been brighter. Over the last three financial years, Indo-British visible trade increased from Rs. 1,104 crores in 1978-79 to Rs. 1,253 crores in 1980-81. According to the Chief Executive of the British Overseas Trade Board, the total Indo-British visible trade was probably worth £ 1000 million in 1981. The annual rate of growth of Indian exports to Britain during the last five years is 6 per cent.

Traditional items of exports such as tea, tobacco and leather are still important but the export of finished leather and textile products and of engineering goods has begun to feature prominently. Indian engineering exports to the U. K. in 1980-81 stood at Rs. 35 crores as against Rs. 33.78 crores in 1979-80 and the share of engineering exports to India's total exports to the U. K. is 8.2 per cent. The pattern of Indian imports from Britain has also changed. They now include sophisticated machinery, a variety of steels, electronic and telecommunications equipment, scientific equipment and instrumentation as well as whole range of goods using higher technology components.

In addition to trade in commodities, the two countries continue to reach an increasing number of collaborations for the transfer of technology and know-how. As many as 110 out of the 526 collaboration agreements between Indian and foreign firms concluded in 1980 were with British companies. In 1981, British companies entered into 79 such collaboration agreements out of total of 388. In the years since 1957, Britain has remained well ahead of her competitors in establishing new collaboration agreements with Indian firms. In some areas, it has been possible to combine a "package" of aid, technical assistance and consultancies as a background to the sale of sophisticated equipment subsequently produced in India. The United Kingdom remains the largest single foreign investor in India and amongst many leading firms maintaining close links with their British counterparts are ICI, English Electric, Ashok Leyland, Dunlop, Metal Box, GKW and Glaxo which are household names.

On a Government-to-Government basis, the creation of the Indo-British Economic Committee (IBEC) in 1977 has provided a means for ministers, officials and business to identify fruitful areas for co-operation. The fifth meeting of the Committee is expected to be held in London in June this year. British firms are coming to understand that despite traditional links between Britain and India, business will be won on merit rather than goodwill. They must be competitive in prices and offer a service comparable to that available from their competitors — both Indian and foreign. The urgent need however is to redress the growing imbalance in the trade between the two countries. This will be helped to the extent that Britain steps up her imports from India.

Will Maruti Go In For Japanese Tie-Up ?

IF the management of Maruti Udyog has any say in the choice of the collaborator, it will plump for Suzuki of Japan. At the moment, it looks as if the plum is going the Suzuki way. This may cause heart burns among the front runners for the prize — notably British Leyland which has made a fairly detailed proposal — but the Government can no longer postpone taking a decision, one way or another. What gives an edge to Suzuki is the fact that a Maruti team which visited Japan recently to examine the offers from Suzuki and Mitsubishi, has come back impressed by the capabilities of the former. Suzuki, incidentally specialises in the manufacture of small cars and even the General Motors of the U.S. have secured Suzuki's collaboration for producing compact cars. Considering that the Industry Minister too likes the Suzuki model, the collaboration proposal is likely to have an easy passage in the Cabinet.

Even if the tie-up proposal is approved by the Cabinet, it may be doubted if Maruti can keep to the promised deadline of 1983-end for commencing production. By an optimistic reckoning, the Maruti cars assembled from imported components may roll out of the factory by 1984 — and not earlier. And, for a 100 per cent indigenous car, the buyers will have to wait till the end of this decade. An attractive feature of Suzuki's offer is that the Japanese firm will take up 40 per cent of the shares in Maruti. Since putting up a car manufacturing facility involves an investment of Rs. 250 crores, 40 per cent participation by the collaborator will bring the problem of raising capital to manageable proportions. Unlike a British-aided unit which would have enjoyed a slight advantage in the shape of horizontal integration (farming out the manufacture of components to other British-assisted ancillary units), the Japanese collaboration probably involved a high degree of vertical integration. This is bound to add to the final cost unless Maruti goes in for exports in a big way.

Glass House Gossip

THERE is nothing unusual about daughters-in-law revolting against their mothers-in-law but I quite see why Maneka's mini-revolt has hit the headlines. Do I have to explain why? Maneka is the daughter-in-law of India's iron lady, Mrs. Indira Gandhi. Let me put the issue in perspective. As mothers-in-law go, Mrs. Gandhi is a very indulgent woman. She has never harrassed Maneka, either during Sanjay's life time or after his death. If one sees frowns on Mrs. Gandhi's face now, it is because of Maneka's tendency to dabble in politics.

The immediate provocation for Mrs. Gandhi's anger is that Maneka has agreed to attend a meeting of Sanjay's followers organised by one of Sanjay's cronies, Mr. Akbar Ahmed, in Lucknow. What is there so special about the Lucknow meeting, you may ask. Well, for one thing, it is organised by Dumpy— that is how they call Mr. Ahmed—who is *persona non grata* with the Indira house hold. Dumpy's another-fault is that he tried to appear more loyal than the crown prince. For another, the succession battle is settled, once and for all, in favour of Rajiv, Sanjay's elder brother, and Mrs. Gandhi tends to view with disfavour any attempt to unscramble that fact.

There are also other reasons for Mrs. Gandhi's annoyance. Maneka's mother, Mrs. Amteshwari Anand, has not quite endeared herself to the Prime Minister. Her sale of *Surya* — a magazine born during the emergency and edited by Maneka — to a group of BJP stalwarts has infuriated Mrs. Gandhi. As for the Lucknow conference, it is winked at by opposition stalwarts like Bahuguna. I do not think that by participating in the Lucknow huddle, Maneka will be setting the Ganges on fire. No doubt, it will create a few ripples as a tempest in a tea cup does. Nothing more.

□ □ □

I am no great admirer of Mrs. Gandhi's way of choosing Congress (I) Chief Ministers and the choice of a dark horse like Babasaheb Bhosale to replace Antulay did not greatly enhance the party's credibility. It was just another case of rewarding sycophancy and me-too-ism. Having said this, I must also point out, in fairness to the beleagured Mr. Bhosale, that his detractors—both within the party and outside—are wrong in trying to unseat him through character-assassination. Mr. Bhosale is implicated in a divorce suit filed in a civil court in Bombay by his daughter-in-law, Savita Bhosale.

The issue gains added poignancy by the fact that, three years ago, in 1978, Savita tried to commit suicide by jumping before a local train in Bombay. She was miraculously saved but both her legs had to be amputated. Immediately after this unhappy event, Savita is reported to have made a "dying declaration" to the effect that Mr. Bhosale and his son treated her in an unbecoming manner. Since the court has issued an injunction restraining newspapers from publishing details about the case — the divorce suit is being conducted *in camera* — the newspapers which have published lurid and imaginery details about the case can be hauled up for contempt.

All my sympathies are with poor Savita who had to go through hell but, at the same time, I do not approve of the witch-hunt that is going on to topple Bhosale from Chief Ministership. Certainly, I do not greatly fancy Bhosale for the Chief Ministership of India's leading state but I do not wish to join those who specialise in hitting below the belt.

□ □ □

The strong men of the Bangladesh army are playing the Russian roulette with deadly precision. They are playing it ever since the nation was born, in 1971, after a devastating war. The first to go was Mujib — the founder and the first President of Bangladesh. The *Bangabandhu* and his family were gunned down in a pre-dawn coup in August 1975. The next to go was President Zia-ur-Rahman who was assassinated — again by a group of army hot heads — in May last year. Mr. Abdus Sattar, who headed a wobbly civilian Government since Zia's assassination, did not suffer the same fate but was toppled in a bloodless coup last week by the Army Chief Lt. Gen. Ershad.

Through all this bloodshed, a familiar pattern has become discernible. It is that the army does not mind driving from the back seat or stay in the barracks so long as the civilian head of Government dances to its tune. The moment he is out of step, he is removed from power, through a show of force. It is also of some significance that these coups have taken place invariably after the civilian head secures the people's mandate through elections. This only goes to show that army men are no great respectors of democracy.

But then, I may be too hasty in drawing conclusions. In India, for instance, the armed forces have conducted themselves in an exemplary manner. Despite corruption

---

For once, I am overtaken by events, I did not quite anticipate the manner in which Maneka had to leave the Prime Minister's house.

in high places, political in-fighting and the deterioration in the law and order situation, the army has not shown an inclination to dabble in the affairs of state. They have never trespassed the invisible line—the *Lakshman Rekha* of our mythology — to pose a challenge to our politicians. This stance of aloofness may, in part, be explained by the Sandhurst tradition which is widely followed. It may also be explained by the fact that ours is a nearly ungovernable country.

* * *

THERE has been an alarming increase in the incidence of dacoities in and around Bangalore in the recent weeks. Outlying areas like Koramangala and Indiranagar seem to be particulary vulnerable to crimes but other localities are not totally immune to it. The city police, who are fairly good at crime detection and at nabbing the culprits, seem to be barking up the wrong trees (forgive the mixed metaphor) this time.

The theory that the gang is from a northern state turned out to be wrong since the persons arrested in this connection have not confessed to any of the robberies reported in the recent weeks. This leads one to suspect that some local gang may have committed these crimes (mostly house-breaking) and avoided being caught by providing wrong clues. I do not pretend to know better than Mr. Nizamuddin, the Police Commissioner, But I may be pardoned for venturing the suggestion that he can as well abadon the old theory (even if it means some loss of face) and look for new clues which may help in locating the culprits nearer home.

The city police deserve praise for intensifying night vigil but, as every citizen knows, night vigil (the policemen doing the night rounds) is at best a ritual which hardly deters a house-breaker from forcing his way into a quiet, isolated house. Let the police get their share of credit but the residents of "endangered" localities will do well to organise themselves into alert squads for maintaining night vigil. By the way, did you read the story about "Karate cops" in the first issue of *The Times of Deccan?*

* * *

Acharya J. B. Kripalani, who passed away recently, belongs to a species which has almost become extinct. I said "almost" because we still have Gandhians like Acharya Vinoba Bhave. Frankly, I do not consider Bhave to be a true Gandhian although I do not deny that he has several attributes of greatness. How can Vinobaji qualify to be called a Gandhian when, in 1975, he supported the emergency and called this unusual period *anushasan parva?* Further, from the manner in which the saint of Wardha is carrying on his campaign against cow slaughter (I have nothing against cow slaughter but why cows alone?), one can say that he an obscurantist.

But Acharya Kripalani practiced the Gandhian tenets in their true spirit. Not many, except Nehru, Patel and Bose could match the Acharya's record of sacrifice during the freedom struggle. The greatness of Kripalani lies in the fact that he never hankered after office. In this regard, he was like Jayaprakash Narayan. Of course, he was older and a few inches taller than J. P. Kripalani's good fortune was that he had, in Sucheta Kripalani, a wife who was as totally involved in the nation's politics as he was. The difference lies in the fact that Mrs. Kripalani tasted power too, having served India's largest state with distinction, as its Chief Minister. After the death of Sucheta Kripalani, the Acharya seemed to feel an overpowering sense of loneliness.

Kripalani, who stood for the observance of the highest norms in private and public life, lived to see the erosion of these norms to a large extent. He fought a lone battle against corruption — particularly corruption in high places. Like J. P., Kripalani believed that the victory of the opposition parties — the Janata conglomerate, to be precise — in 1977 would mark the beginning of a new era of political rectitude in Indian politics. He had a large hand in the choice of the Janata Prime Minister. He must have sorely regretted that choice when the Janata Government collapsed in 1979 as a result of its own internal contradictions.

— Plebeian

SOUTHERN ECONOMIST

BANKING NUMBER — APRIL 15, 1982

The issue of *Southern Economist* dated April 15 will contain our annual Banking Survey. It analyses banking developments in 1981 and contains articles on banking and allied topics.

Material intended for publication in the Banking Number may please be sent at the earliest.

The special issue will be priced Rs. 5 but the subscribers will get their copy in the usual course.

— PUBLISHER

Pranab Mukherjee's Quick-fix Operation

By **S. V. Char** *

The merits of the 1982-83 budget, as claimed by the Finance Minister, are its attack on inflation and the boost it provides for savings and investment. In this article — the last in our series on the Union Budget — the author subjects the latest budgetary exercise to a searching analysis and finds that it does not go far enough either in dampening inflation or in helping production in this " year of productivity ".

HAVING taken over the Ministry of Finance barely six weeks earlier, the present incumbent has had to rely to a larger extent than under normal circumstances on the bureaucrats in North Block for the framing of the 1982-83 Budget. Not surprisingly, therefore, it stands out as a quick-fix bureaucratic budget, rather than a well-thought-out and planned annual national accounts of the country. It is devoid of stimuli for boosting production, especially where it was most needed. It fails to take advantage of the cheerful mood prevailing in the investment market and the relatively happy position the economy finds itself in.

A little fiscal boost and a little decrease in fiscal handicap of individual or at least corporate assessees would have contributed to accelerate the rate of growth in the economy already poised for rapid advance. That would also have been in keeping with the Prime Minister's two significant declarations: one before the Budget, designating 1982 as the "year of productivity" and the second after the Budget confirming that the soft option of growth has been embraced in preference to that of distributive justice and for which reason deregulation and liberalisation over a wide front (industrial licensing, MRTP, FERA clearances, import licensing, etc.) have been undertaken and would continue to be the hallmark of policies to be formulated in the future.

Considered more synoptically, however, over a vast gamut of industry and economy, it is the liquidity shortage that has been playing havoc in production and marketing. There is a number of large and small-scale units facing bankcruptcy, not unlike the British organisation, Laker Airways, for which last month a receiver was appointed—mainly on account of the banks refusing to go all the way with this organisation.

For reasons of both inflation, especially in capital costs and over a long period, as well as the expansion in the volume of business, and in other cases heavier inventories caused by recessionary trends, the dependence of business organisations on banks and term-lenders, for both working capital and long-term funds has increased appreciably. Oddly enough, the monetary authorities have chosen this time, possibly under IMF influence to restrict growth in M3 and more importantly for impounding even the limited funds available with the banks. There has also been some diversion of deposits from the banks directly to the borrowers by way of debentures and public deposits. The net result is there have been *ad hoc* cuts in sanctioned limits and banks have been reneging on promises made earlier. In this respect, counterpart business organisations like in Japan are very happily placed with enviable liquidity. For these reasons, at the moment in India, monetary policy somewhat stands on an eminence relative to fiscal matters.

Ignoring the March-1980 interim budget, the 1982-83 budget is the third of its kind by the present government for the third year of the Sixth Plan. A common feature hitherto was one of consolidation and at least in principle a moderate encouragement of production and investment. The 1982-83 budget is much less so and does not grab the opportunity offered by the upswing in the economy to accelerate growth and investments. It lacks a personality of its own. However, if one must count one's blessings, its major plus point is it runs its course without fiscally handicapping of any particular sector or assessee to a damaging extent. The only conclusion is the fiscal options have not been well-exercised.

The Finance Minister has kept three major objectives while framing the budget. For fear of stoking the inflationary fires, he has attempted to minimise the budgetary deficit. Secondly, he has offered certain incentives for promoting savings and thirdly, in deference to the Prime Minister's 20-point programme, he has attempted to give a filip to productivity. In all the three areas, he has been too pussy-footed and unenterprising to make an impact on these macro variables.

The year 1982-83 will be the 4th continuing year when there would be a deficit in the Union Budget even on the revenue account itself. Almost without a break, upto 1978-79, there used to be a sizeable surplus on revenue account, although on capital account, there have invariably been large deficits except in the budget estimates of 1980-81. Since 1978-79, budgetary deficit has averaged Rs. 1,903 crores, the record deficit of 1979-80 being Rs. 2,433 crores and the minimum Rs. 1,506 crores in 1978-79. The budget for 1982-83, after taking into account the effect of budget proposals, reveals a deficit of Rs. 1,365 crores. Without the tax measures and additional resource mobilisation, it would stand at Rs. 2,085 crores.

---

* Dr. S. V. Char is Economist, Mahindra Ugine Steel Co. Ltd., Bombay - 400 021.

Deficits of this order make a mockery of the Sixth Plan's estimated deficit of Rs. 5,000 crores over the entire plan period (1980-85), whereas in the first three years itself it has already aggregated to Rs. 5,040 crores. It is in this context that one has to refer to the capital receipts statement for 1982-83. It takes credit for net external loans of the order of Rs. 1,472 crores. Loan from IMF trust fund had been mentioned as one of the items in the 1980-81 budget, if not in the 1981-82 budget. As regards the recent IMF Extended Fund Facility, the government should clarify as to how it would be treated for budgetary purposes. Apparently, such Facility would be in the nature of working capital assistance helping the country to continue to indulge in needlessly liberal imports, which would continue to be dumped on Indian markets at throwaway prices, compelling domestic units to cut production if not pull down their shutters. There will also be the attendant problems of unutilised capacity, capital consumption, entrenchment of recessionary trends, retrenchment of workers and so forth. While imports may have disinflationary impact by increasing the stock of goods in relation to the stock of money in the economy, however, in the second round when the imports get converted into Rupees, how such money would be deployed would have influence on the price level. The previous incumbent had hinted at the possibility of not having to draw the balance amount of the EFF, carrying a much higher variable interest rate, if the output from Bombay High turns out to be as scheduled.

Even otherwise, the pressure to keep the budgetary deficit at a low level was very much there, given the fact that as much as 48 per cent of the overall expenditure is earmarked for non-developmental purposes such as defence (17 per cent). It is true that the wholesale price index for the week-ended February 6, 1982 slotted at 277.9 is only 4.1 per cent above the level a year ago. It is, however, 21 per cent above the level two years ago and about 45 per cent three years ago. The upward movement of the consumer price index causes much more concern. Secondly, despite the recessionary trends in certain industries, there has been some buoyancy in certain sectors of the economy, thanks to the improvement in infrastructure, including power, railways, coal, steel, etc., apart from higher levels of output in agriculture and industry.

Nevertheless, the resort to several indirect tax measures, especially the increase in the rates of auxiliary duty on all imported goods, including machinery and project imports by 5 per cent cannot but prove to be inflationary. They would also worsen the already high capital-output ratio.

If there is one aspect of the budget in regard to which the government cannot be faulted, it is in respect of the budgetary provisions for defence. It makes an overall allocation of Rs. 5,100 crores for defence both on revenue and capital accounts. On revenue account, the increase in the budget allocation, taking into account the revised estimates for 1981-82 is Rs. 463 crores and on capital account Rs. 37 crores. It needs to be emphasized that despite the Pakistan factor and the induction of F-16s in the South-East Asian scenario, as a percentage of the overall budget, defence allocations work out to 17.454 per cent in 1982-83 as against 17.393 per cent, a tolerable marginal increase. This, however, does not mean that the government should not consider possibilities of maintaining the power balance even with conventional strategies, which may not call for additional investments in growingly sophisticated weaponary spawned by the industrial-military complex in the west.

For a dozen reasons, the inflationary pressure will be hard to contain in the coming year. They can be easily listed: as in the past, there is the impropriety of pre-budget mopping up of resources by (a) putting up Railway freight effective 1.1.82 (Rs. 581 crores) and (b) by increasing the telecommunications tariffs including telephones (Rs. 10 crores). The other causes for continued pressure on prices are (c) hiking passenger fares and railway freight in the February 1982 railway budget (Rs. 261.45 crores), (d) upward revision of postal tariffs for printed postcards, letters, etc. (Rs. 35.33 crores), (e) mark up of customs duty for a number of products as well as the levy of a general 5 per cent auxiliary duty (Rs. 391 crores), (f) increases as well as modifications in excise duty especially of cement (Rs. 196.18 crores), (g) the anticipated mark-ups in the prices of key public sector products such as coal and electric power, (h) the multiplier impact of such increases, (i) the higher procurement prices for foodgrains, (j) pump priming through deficit financing, together with the sharp increases in non-development expenditure and so forth, and (k) the restrictive impact of the credit squeeze on production and expansion of economic activity are bound to adversely impinge on the price level.

Aggregate resources for planned development during 1980-85 have been estimated to Rs. 172,210 crores at 1979-80 prices. Of this, private saving is estimated to be Rs. 115,447 crores. The private sector has also been called upon to finance 46 per cent of the overall investment of Rs. 156,710 crores. Of this amount, the private corporate sector is expected to undertake an investment of Rs. 15,000 crores, which it is expected to raise in the form of retained profits (Rs. 5,710 crores), depreciation provision (Rs. 3,160 crores) and savings of private financial enterprises including banks Rs. 183 crores. A balance amount of Rs. 5,947 crores has to be raised by way of capital issues by subscription by the public. This is indeed a formidable task.

Last year, in the area of direct taxation, the exemption limit on personal income-tax was raised from Rs. 12,000 to Rs. 15,000 benefiting about 14-lakh tax-payers, apart from providing marginal relief to another 11-lakh assessees out of a total assessee population of about 40 lakhs. A higher standard deduction under Sec. 16-I of the Income-tax Act, at 20 per cent of the salary or Rs. 5,000 whichever is lower was also provided. In this year's budget, the only tangible benefit to low-income assessees is the raising of the standard deduction to 25 per cent of the salary, even as the upper limit of Rs. 5,000 has been maintained. In absolute terms, this is a pittance of a relief to the salaried classes and fixed income groups.

Under Sec. 80–C Life Insurance Premium, contribution to Provident Fund including public provident fund, amount paid towards unit linked insurance plan, contribution to superannuation fund, or deferred annuity, sums deposited in 10 or 15 year post office savings bank account (C.T.D.), etc., are permitted to be deducted from taxable income. However, the aggregate sums qualifying for computing the deduction hitherto was limited to Rs. 30,000. This overall monetary limit has been raised to Rs. 40,000 in the budget and from Rs. 50,000 to Rs. 60,000 in the case of authors and people in Fine Arts. More importantly, it will now be possible from assessment year 1983-84 to deduct 100 per cent of the first Rs. 6,000 of such investment, 50 per cent of the second Rs. 6,000 and 40 per cent of the balance amount. Compared to the previous deduction in this respect, the total deductions now proposed to be given would increase from Rs. 15,500 to Rs. 20,200. In respect of deductions provided under Sec. 80–L for income from investments in specified categories of financial assets including interest on bank deposits, government securities, dividend from equity investment in Indian companies etc., income upto Rs. 3,000 was deductible from gross total income. A further deduction of Rs. 2,000 under Section 32 (1) of the UTI Act was allowed in respect of the income received from Units or upto a total of Rs. 6,000. For stimulating savings and investments, this monetary ceiling has now been raised to Rs. 4,000 and the deduction for income from units has been raised to Rs. 3,000 or to a total of Rs. 7,000.

A novel feature for promoting savings is the introduction of the Social Security Certificate in addition to the existing National Savings Certificates (second issue and third issue), carrying an interest rate of 6.5 per cent and 6 per cent respectively. The income from the certificates would be exempt from income-tax upto a maximum permitted investment in the SSC of Rs. 75,000. This works out to about Rs. 4,875 per annum, whereas interest on government securities and other saving certificates under Section 80 - L are exempt only upto Rs. 4,000. Under the new scheme restricted to individuals in the age group of 18 to 45 years, one can invest upto Rs. 5,000 and watch it treble to Rs. 15,000 in 10 years, which works out to a compound rate of 11.6 per cent. The security part of the savings is provided by arranging to transfer the value of the certificate to the nominee either on maturity or immediately on the demise of the investor. In this connection, it should be noted that the entire investment in certain government securities to be notified by the government would qualify for deduction at specified rates with a view to encouraging savings.

A new financial asset also for the purpose of encouraging savings introduced by the Finance Minister is the new series of bonds known as the 'capital investment bonds' with a maturity period of ten years and carrying a simple interest rate of 7 per cent per annum. The entire interest income without ceiling is exempt from tax. This is no doubt a highly attractive invesment. Assuming that an individual pays the MMR rate of 66 per cent, such a person stands to gain substantially by about 16.2 per cent. However, it is possible for those with unaccounted money to join hands with others indulging in *havala* transactions and convert their black money into white money for compensatory payments outside the country. With the exemption given to non-residents in respect of interest income as well as the exemption from gift tax in respect of gifts of capital investment bonds upto a maximum of Rs. 10 lakhs, it will not be difficult to put through such transactions. As equally grave aspect of the C.I.B. is that it would divert public funds away from private sector companies, unless they happen to be excellent companies and offer tempting incentives. The tax shelter provided by this investment would be so attractive that two consequences are most likely to follow. First, the amount exempted to be tapped from CIB of Rs. 250 crores may turn out to be a few times more. Second, it may also divert less money into the parallel economy.

Yet another deduction available in respect of investments under Sec. 80–CC relates to permissible deduction of upto 50 per cent of the cost of new (rights) equity shares in new industrial companies other than schedule 11 industries. The budget has raised the maximum amount of investment qualifying for deduction from Rs. 10,000 to Rs. 20,000. It is possible that as a result of this provision, there will be larger purchases of equities in new industrial organisations. This should be widely welcomed since it could lead to a wider base for equity ownership. .

Remittances from Indian migrants were of the order of $ 2.4 billion in 1980. It has come down substantially. This fall, according to the *Economic Survey*, is on account of more lucrative opportunities available abroad. In order to encourage the inflow of remittances into India, it has now been provided to exempt from income-tax in the case of non-resident Indian citizens as well as foreign nationals of Indian origin in respect of income received by them in the form of interest on savings certificates paid for in foreign currency. For this purpose, the benefit now accruing only to non-residents will be made available to persons resident outside India as defined in the FERA. The definition of 'residents' is being modified for this purpose. As a corollary statutory change, investments in specified savings certificates made by non residents is to be exempt from wealth-tax also. The credit balance in a non-resident external account will also be excluded while computing wealth-tax.

These provisions have been received extremely well in the Gulf countries not only by Indian builders, but also by Indian exporters and non–resident Indians. Indian builders are keen to avail themselves fully of the 25 per cent deduction in respect of profits. Secondly, non-resident Indians in the Gulf have similarly been inclined to make large scale equity investments in India now that the procedures have been simplified and the definition of 'resident' has been changed to make it conform to the one obtaining in the FERA. They are also encouraged by the higher interest rates to which non-resident savings accounts and savings certificates would now qualify.

Hopefully, the earlier buoyancy in remittances from Indian emigrants would be restored. The other concessions in the Finance Bill relate to (a) encashment benefit in lieu of unavailed earned leave at the time of retirement, (b) raising monetary ceiling from Rs. 300 to Rs. 400 per month for those note receiving house rent allowance, (c) raising the monetary ceiling, half of which would be computed as the annual letting value of self-occupied house from Rs. 1,800 to Rs. 3,600, (d) raising the monetary limit for a newly constructed house from Rs. 2,400 to Rs. 3.600 for purposes of encouraging building activity.

In the area of wealth-tax, the ceiling for investments in specified financial assets exempt from wealth-tax is proposed to be increased from Rs. 1.5 lakhs to Rs. 1.65 lakhs. For Units, this is increased from Rs. 25,000 to Rs. 35,000. The exemption limit for professional tools has been put up from Rs. 20,000 to Rs. 50,000 and for conveyance (motor vehicles) from Rs. 30,000 to Rs. 75,000. Had there been any concern for inflation-proofing, there limits should have been raised at least to Rs. 4-5 lakhs for wealth-tax purposes.

In the area of direct taxes, the unkindest cut relates to raising the rates of income-tax for income slabs between Rs. 60,000 to Rs. 1 lakh. The rate goes up by 2½ per cent, such as 52.5 per cent for a taxable income of between Rs. 60,001 to Rs. 70.000. This was a double surprise because there was a wide expectation, firstly of a continuation of Mr. Venkataraman's experimentation with fiscal dynamics as reflected in the rate elasticity of tax revenues. Art Laffer's curve of revenue behaviour *vis-a-vis* tax rates, despite its beguiling simplicity, does contain some truth regarding optimal rates for tapping the tax potential. The curve apparently had some impact on the North Block bureaucrats. The Finance Minister himself has conceded that "it is gratifying that despite significant tax concessions given in the budget for 1981-82, the receipts from income-tax are likely to be Rs. 1.520 crores as against the budget estimates of Rs. 1,444 crores."

The government, for response best known to it, has not only discontinued this practice, but has also chosen to enhance the rates. Secondly, there is anguish amongst the less dishonest tax-payers who did not put in cashes much of their incomes, away from the ITO's gaze and as such could not avail themselves of the bearer bond benefit. For these two reasons, it was expected that the rates may be pegged down further.

In the case of professionals, who could normally be expected to have a taxable income of between Rs.60000 to Rs.1 lakh, the additional burden will prove to be too severe considering that the aggregate burden of income-tax plus surcharge plus wealth-tax plus compulsory deposit, etc. would prove to be more than 100 per cent. This measure can, therefore, be expected to drive more money into the parallel sector or compel assessees to resort to devious methods for tax avoidance if not tax evasion.

The government has obviously fallen back on its old ways. Consequently, it would not be surprising if the tax potential is less adequately tapped, if there is less compliance and more evasion. The Chokshi Committee recommendation that the rate structure of income-tax should provide for a maximum marginal rate of 60 per cent which should be applicable to income exceeding Rs. 2 lakhs has obviously been rejected yet once again. What is equally significant, tax revenues of both the Centre and the State governments, as a percentage of GNP are likely to go down in relative terms from the already low level of 17.8 per cent during 1980-81. In contrast, several developing countries such as Argentina, Zambia, Brazil, Chile and many others themselves raise over 20 per cent of GDP by way of tax revenues.

The Indian tax system is also inequitious. The continued exemption of agricultural incomes converts agriculture into a tax haven. The exclusion of plantation lands under tea, coffee, rubber, cardamum, etc. from the wealth-tax levy cannot but contribute to making the tax system more inequitous.

It was widely being criticised mainly by property owners that the capital gains tax was in fact a tax on capital loss, further adding to the loss sustained by a property holder when he replaces an existing property. The replacement value has been increasing and as such the sale consideration received would not be adequate to acquire a new asset. In the computation of capital gains, the sale consideration alone figures which cannot but be unfair to assessees. In the 1982 Finance Bill some concession, albeit niggerdly, have been granted. Hitherto, under Sec. 80–T the permitted deduction was Rs. 5,000 + 25 per cent of the sale proceeds in the case of land & buildings and Rs. 5,000 + 40 per cent in the case of other capital assets.

There was no deduction available for short-term gains. In the 1982 Finance Bill, besides the earlier Rs. 5,000, further deductions according to the length of the period for which an asset is held and varying between 25 per cent to 40 per cent have been permitted for land & buildings and between 40 and 60 per cent for other capital assets. By increasing the deduction the Finance Minister has merely restored the earlier deductions permitted, which in course of time were reduced.

For jewellery, the deduction limit remains pegged at Rs. 50,000. There is no change in respect of the present 100 per cent exemption from capital gains tax, where such sale proceeds are reinvested as stimulated in Sec. 54–E within a period of six months in preferred assets such as shares, bank deposits, units of the UTI. Such assets should be held at least for a period of three years.

The basic issue here is that the monetary limits prescribed in Sec.-53 of the income-tax act for the full value of consideration received such as Rs. 25,000 for property severally are Rs. 50,000 aggregatively are archaic having been so fixed some quarter century ago. Since then property values have multiplied by at least 6–7 times even in small towns and several more times in metropolitan places such as in Bombay, Delhi, Calcutta, Madras, etc. As such, the government should consider amending Sec.-53 limits to at least Rs. 1.5 lakhs for property sold severally or Rs. 3 lakh in aggregate terms.

Of late, there has been an apocalyptic awakening, especially in the corporate sector, to the fact that it would have to resort increasingly, at the bidding of the government, banks and the term–lending institutions themselves to raising a larger proportion than hitherto of the funds needed both for capital and revenue expenditure on their own. (Witness the excruciating circumstances in which business organisations find themselves for want of liquidity). A helping hand from the government enabling larger accretion of funds for expansion and diversification would have boosted industrial growth.

At the other extreme, ample evidence has also been marshalled to underscore the point that India itself is a tax haven for those who undertake to expand the asset base rapidly. The current tax holiday provisions (80-I) permit new inpustrial undertakings to plough back their incomes for a period of eight years upto 25 per cent of the profits earned without paying any tax. Under Sec. 80–J a similar tax holiday concession at a rate of 7½ per cent of capital employed was available. The investment allowance is yet another important deduction from taxable profits. It is permitted at 25 per cent of the cost of new plant & machinery. The other concessions for new industries in backward areas such as the 20 per cent deduction from profits from underiaking established in specified backward areas (80-HH) along with the investment subsidy do reduce the tax liability of companies substantially. As a matter of fact, one could cite the cases of TELCO, MUSCO, Raliance Taxtiles, East India Hotels, Utkal Machinery and so forth which have succeeded in availing themselves of the fiscal incentives to varying extent and in reducing their tax liability almost to nil.

Nevertheless, it is obvious that in view of the fact that the 6th plan calls upon the corporate sector to raise as much as Rs. 15,000 crores of which Rs. 5,710 crores is expected to be raised in the form of retained profits a lower corporate tax would leave larger post-tax profits with corporate assessees. One cannot also presume that industrial organisations are capable and are in a position to expand their business and capital base continuously at all times so that they may legitimately escape the tax net. For these reasons, it was widely expected that: (a) the corporate tax rate would be cut at least marginally from 56.375per cent to around 50 per cent, (b) at least the surcharge of 2½ per cent may be dropped, (c) deduction of dividend upto say 15 per cent on equity from taxable income would be permitted, (d) accelerated depreciation or larger investment allowance may be allowed and so forth. These thoughts have proved to be too solicitous to be realistic.

For purposes of promting exports apart from encouraging larger foreign exchange remittances a couple of measures has beed introduced. Firstly, with a view to encouraging contracts to undertake constructon and engineering project work outside India, a new Sec. 80–HHB has been introduced in Income Tax Act to provide for a statutory deduction in the computation of taxble income of 25 per cent of profits and gains. The conditions attached to this proviso are: (1) The realisation should be in foreign currency, (2) such a deduction would have to be credited to a foreign projects reserve account, (3) it would have to be utilised for business purposes only and cannot be distributed by way of dividends or profits, (4) 25 per cent of such profits would have to be remitted to India within a period of six months from the end of the relevant accounting year.

A second incentive measure for promoting exports is the grant of tax relief in respect of incremental increases in export turnover of not less than 10 per cent per annum over the immediately preceding year. In this respect, however, the government has specified a 10 per cent ceiling for deductions from income-tax payable. The exact rate, however, is left in some measure, to the discretion of the tax authorities. The rate at which such reduction would be permitted and how it is to be calculated is to be notified by the government in the official gazette. During a period of world-wide recession and protectionism, these measures are indeed welcome. Though it is difficult to say to what extent the objectives of promoting exports would be achieved, it cannot be gained that these two measures do provide tempting incentives to enter into export business.

One of the provisions pertaining to corporate taxation relates to the extension upto March 31, 1987 of the time during which one can avail of the investment allowance at a higher rate of 35 per cent in respect of machinery & plant installed after June 30, 1977, but before April 1, 1982 for producing articles employing indigenously developed technical know-how. Yet another major relaxation for corporate organisations doing hotel business is the discontinuance of the hotel receipts tax, thereby repealing the 15 per cent tax chargeable on receipts of hotels in which room charges are Rs. 75 per day or more per individual. This is with a view to promoting tourist traffic in India which was expected by the corporate sector from the 1982-83 budget.

The Finance Minister has expressed his concern for resolving the energy crisis and environmental pollution by permitting a 30 per cent depreciation on devices and systems for energy saving or for minimising environmental pollution or for conservation of natural resources. Last year the depreciation allowance on machinery & equipment for manufacturing renewable energy devices and systems was enhanced from 10 to 30 per cent. The present sizeable depreciation allowance for energy conservation equipment themselves is a further step in the same right direction. The other welcome features relate to the extension of the 100 per cent deduction available in respect of donations for rural development programmes and conservation of natural resources as well as in respect of donations to the National Children's Fund.

In the area of indirect taxes, the major provision relates to the enhancement of the varying basic customs duty on a number of items, including iron & steel products, stainless steel and heat resisting steel scrap, alloy steel, stainless steel, heat resisting steel, etc., to a uniform 60 per cent *ad valorem*. The effective rate of basic customs duty on copper pipes, tubes, blanks, etc., have also been raised from 40 to 60 per cent *ad valorem*. Besides, the auxiliary duty on all categories of imports has been raised by 5 per cent. The exceptions are petroleum products. The significance of this measure is that the expected yield from the auxiliary duty is as much as Rs. 230 crores.

Several corrective measures in the import policy area (the legitimate preserve of the Commerce Ministry) figure in the budget. The enhancement of the import levy besides a revenue function serves to make amends to the depredations wrought by the 1981-82 import policy. Last year, the government, either of its own volition or under pressure from elsewhere, has liberalised imports and put a number of items produced including steel in the country on OGL. This had a very adverse effect on not only indigenous production, but also on domestic prices. This lead to a number of representations to the government to curb such imports so that cheaply produced items are not dumped in India at a time when the world over including in the US and Europe, protectionist tendencies rule the roost.

The auxiliary duty as well as the increase in customs duty, especially on iron & steel, it should be surmised, is with a view to blunting the sharp edge of competition posed by dumped goods. While the raising of the tariff wall may to some extent curb imports, producers, however, still expect amendments to the import policy to be announced in April as a prime solution to the recessionary trends caused by indiscriminate imports, leading to heavy unsold stocks and thinning of order books in chemicals, steels and engineering goods.

The increase in import duty on electronic items such as computers, calculating machines, accounting machines, cash registers as well as sub assemblies from 40 to 60 per cent *ad valorem* to 100 per cent *ad valorem* is mainly intended to discourage the import of CKD packs for assembly of principally entertainment electronic items and to promote their indigenous production. Nevertheless, some alarm has been rung by producers of such equipment that they would face serious trouble since indigenous availability of the components can meet only a small part of the demand.

In the case of imported newsprint, the *ad valorem* duty of 15 per cent has been converted into a specific duty of Rs. 825 per metric tonne. The IENS has criticised that the specific duty is merely a 15 per cent charge on the existing price of imported newsprint and as such, makes no difference. The IENS claim, however, chooses to ignore the fact that even if the prices should vary, the duty will remain steady at Rs. 825 per tonne and under inflationary conditions, this is better than an *ad valorem* duty.

A major provision relates to permitting a unit located in a free-trade zone to market 25 per cent of its production within the country after payment of import duty. It is hoped that this would enable the so-called 100 per cent export-oriented units to benefit from scale economies. If a product enjoys a good reputation in the home market itself, possibly it would do well even in a foreign market. This provision, as such, has been welcomed by businessmen.

In the area of excise duty, there is the apologia for an incentive for boosting production in this so-called productivity year. He has revived the excise duty rebate scheme in a truncated form for increased production during the 12–month period commencing from March 1, 1982. The present scheme covers 38 tariff items such as caustic soda, fertilisers, synthetic resins, steel ingots and steel products, internal combustion engines, two and three-wheelers, commerical vehicles and tractors, paper, etc.... The duty concession of 1/5th of the total amount of duty payable on the excess production accrues when production exceeds 110 per cent of previous year's level. Where the excise duty is an *ad valorem* levy, the concession is 20 per cent. Where it is a specific duty, 10 per cent of such duty is the concession.

There are several lacunae in the scheme which negate the objectives underlying the excise rebate. In the case of iron & steel industry, for instance, a 2 million tonne integrated plant will be entitled to a 10 per cent cut in the duty payable on the excess production above the 2.2 million tonne limit. Thus, if it is 2.3 million tonne, assuming the specific duty is Rs. 363/tonne, on 100,000 tonnes, the integrated plant will receive an excise duty rebate of Rs. 36.30 lakhs which could be adjusted against duty payable in the financial year 1983-84.

Here, some evil genius in the Ministry has made an invidious distinction between integrated plants and mini steel units. Although the Finance Minister specifically states that the scheme would apply even to smallscale manfacturers, which mini steels are, thereby establishing that the intention is to cover the entire industry, he has made the scheme applicable only to ore-based steel plants, leaving out scrap-based or even sponge iron consuming units. This is indeed surprising given the fact that mini units can make a substantial contribution to agument steel supplies and yet their production has stagnated at around 50-60 per cent of capacity. This anomaly should be eliminated right away.

A second lacuna relates to leaving out of the scheme a large number of important industries which have no mean weight in the index for industrial production. If 1982 is a year of productvity, it cannot be so only to an arbitrarily chosen few, but all units whatever may be their product-mix. The government has not even specified a particular weightage as the cut-off point above which all industries would enjoy the concession. Thirdly, it is rather absurd to say that this is a generous gesture. The concession would have to be at least 50 per cent of the duty payable on incremental production if such an adjective has to be used. One of the measures proposed in the Finance Bill relates to the amendement of Sec.–3 of the Central Excise and Salt Act. This measure is unique in the sense, it would be detested by manufacturers, but heartily welcomed by consumers. The effect of this provision would be to compel producers to pay back to the government excise duty reliefs granted to them from October 1975 till the present day and which they have not passed on to the consumers.

It has been found by the government that certain categories of manufacturers have been charging the consumers a price fully loaded with the full excise duty rather than the commuted duty if any. It is precisely to prevent such a malpractice, as the government would view it, that this amendment has been brought forward. Modi Rubber and Voltas and possibly several others have contested the validity of Chapter 4 on Indirect Taxes of the Finance Act in the Supreme Court. It is, therefore, rather tricky to discuss the matter in detail and yet the government has brought forward this amendment precisely to deprive companies of the freedom to contest the provisions in the Finance Act on this subject in any Court of Law. This proposed measure should serve as a warning to manufacturers, not to pocket reliefs granted expressly for being passed on to the consumers.

In the area of exicse duty, perhaps the most important measure relates the introduction of a scheme of levy and free-sale of cement together with a dual pricing policy, marking a distinct break from the policy introduced in January 1977. In a belated recognition of the Antulay factor and the substantial premium in the open market for cement, the government has now proposed to increase duty on portland cement, pozzolana cement, blast furnace slag cement and mesonry cement from Rs. 71.50 to Rs. 135 per tonne. Duty to be levied on special varieties will be higher. On cement produced by mini units, the duty has been fixed at Rs. 100 as against the present duty of Rs. 32.50. Under the new policy, cement producers have to part with two-thirds of their production equivalent to installed capacity at the controlled price for the pool. The balance quantity can be sold *sans* price or distribution control. In the case of new units starting commercial production after January 1982, the quantum of levy cement would be 50 per cent.

Along with the new policy, the government has discontinued the scheme of priority allotment of cement against the inward remittances of foreign exchange. This is in view of the partial decontrol under the new policy. The construction of dwellings requiring more than 500 bags (2.5 tonnes) fall outside the purview of levy quota. The dual pricing policy has substantially brought down cement prices in the market from around Rs. 140 to Rs. 70 per bag. This is in the expectation the prices might decline further to Rs. 45 to Rs. 50 per bag. It may only be hoped that cement producers will now rise to the occasion and despite what they may consider as uninspiring prices, they would continue to expand production. They should not permit or encourage artificial scarcities to develop.

The Finance Minister has also exempted from excise duty several articles of what he calls common consumption such as pencils, erasers, pens including ball-point pens and refills, laboratory glassware, enamelware, thermosflask and parts, water coolers, toothbrushes, spectacles, etc. There are several such items on which concessional rates would become applicable. In the case of mopeds of an engine capacity of 75–CC, the excise duty is 10 per cent *ad valorem*. It is now proposed to extend this concession to mopeds of even higher capacity such as 100–CC, since such two wheelers are expected to contribute to energy savings. Where goods falling under Tariff Item 68 contribute the raw material or component parts of other excisable good credit is given to producers T.I. 68 goods. In order to make this intention clear, the earlier notification dated June 4, 1979 is to be amended.

Some of these cosmetic changes have been intended to impart a veneer of generosity and concern for boosting production, energy conservation, etc. In this task the government may not have much success. The lay public itself can visualise the impact of indirict hikes on the price level. Resource mobilisation, through the budget as well as besides it, has substantial inflationary potential. Secondly, the so–called incentives for larger production are weak enough to leave producers cold. If such are the incentives, they are unlikely to shed apathy and enthuse themselves to overcome production constraints including liquidity, power and other infrastructural deficiencies and gear up production. In this respect, the Budget will prove to be a non–starter.

U. K. AID FOR HUDCO, ROURKELA

Britain is to provide aid funds up to £16.05 million (nearly Rs. 27.3 crores) to the Government of India for the Housing and Urban Development Corporation (HUDCO) and the Steel Authority of India's Rourkela Steet Plant project. HUDCO will get £14.75 million (around Rs. 25 crores) to support its loan programme for urban households in the economically weaker sections of society, and a grant of £1.3 million (Rs.2.2 crores) will finance the sterling costs of the purchase by SAIL for the Rourkela Steel Plant of a vacuum oxygen refining unit, a steam degassing unit and a vacuum arc refining unit.

Both these agreements were concluded recently and sideletters exchanged between the Government of India and the United Kingdom. The HUDCO allocation will be available only for schemes and demonstration project for families with a household monthly income of less than Rs. 350.

NEW BRITISH ENVOY

The British Government announced on March 19 that Mr. Robert Wade- Gery, CMG, would succeed Sir John Thomson as British High Commissioner in India. Mr. Wade-Gery, joined the Foreign Office in 1951. His previous posts include Bonn, Tel Aviv, Saigon, Madrid and Moscow. Mr. Wade-Gery, is a former Fellow of All Souls College at Oxford University.

A date for Mr. Wade-Gery's arrival in India has yet to be announced. Sir John Thomson, whose appointment as the U.K.'s permanent Reprsentative to the U.N. at New York was announced recently, will probably leave India at the end of April 1982.

Inequalities in Irrigation Potential and their Effect on Agricultural Production

By **P. Krishna Mohan** *and* **L. Krishna Mohanarao** *

The vulnerability of Indain agriculture to the vagaries of the monsoons *makes it necessary to accord a high priority for irrigation under our plans. It is also necessary, at the same time, to reduce the glaring imbalances in irrigation facilities among different regions. That is one way of reducing poverty in backward regions.*

ONE of the unhappy experience of planning in India has been that economically backward regions have gained little and benefits of the successive plans have gone more to the developed regions. With the necessary infrastructure which attracts more investment the benefits of additional investments are also confined to these regions. But continuance of such a process is bound to widen disparities in regional development. The benefits of planning accruing only to a selected region is undesirable from the view-point of balanced regional development and distributive justice. In this context it is essential to highlight the inequalities among different regions because of the public investment policy. This study was therefore, undertaken to point out the inequalities in irrigation potential created among different states and the investments made by the Government in different regions. The specific objects of this study are:

(i) To study the inequalities among different states/regions in irrigation infrastructure.

(ii) To examine the impact of these inequalities on the overall development of these states.

Irrigation affects the agricultural sector in many ways. It will increase agricultural productivity "by making possible multiple cropping, by increasing the yield per unit cost and by making possible the production of more lucrative crops".[1] Besides strengthening the agricultural base of the economy, they have multiplier effect on agricultural incomes, employment and diversification of agricultural activity. They support many agro based industries and allied productive occupations, in the tertiary sector. Broadly, the lay a solid foundation for the prosperity of the states economy. This is especially so in predominantly agricultural economies like India.

The vulnerability of India's agriculture to the vagaries of the *monsoon* has made it imperative to accord irrigation a high place in national development plans. About 690 major and medium projects were taken up after independence of which 421 have been completed and many others have started yielding partial benefits. The irrigation potential has more than doubled since the beginning of the First Plan. The total irrigated area in the country, which was about 22.6 million hectares in 1950-51 rose to about 56.60 million hectares at the end of 1979-80 (Table-1).

According to the outlays available in the plan documents, so far an amount of Rs. 7,510 crores has been invested in creating irrigation infrastructure throughout the country. It will be interesting to note that in the Fourth and the Fifth Plans, massive investments have been allocated for the development of irrigation potential. As a gesture towards recognising the importance of irrigation in the development of agricultural sector, in the Sixth Plan planners have proposed to invest more than

TABLE-1

OUTLAYS ON DEVELOPMENT OF IRRIGATION POTENTIAL

	Outlays/Expdt. (Rs. Crores)			Irrigation Potential Cumulative (mil. Hec)		
Plan Period	Major & medium	Minor * irrigation	Total	Major & medium	Minor * irrigation	Total
1	2	3	4	5	6	7
Pre-plan benefits				9.7	12.9	22.6
First Plan	380	76	456	12.20	14.06	26.26
Second Plan	380	142	522	14.30	14.79	29.09
Third Plan	581	328	909	16.60	17.01	33.61
Annual Plans (66-69)	434	326	760	18.10	19.00	37.10
Fourth Plan	1237	513	1750	20.70	23.50	44.20
Fifth Plan	2442	631	3073	24.82	27.30	52.12
Annual Plan (78-79)	977	237	1214	25.86	28.60	54.46
Annual Plan (79-80)	1079	260	1339	26.60	30.00	56.60
Sixth Plan (Proposed)	8448.36	1810.30	10258.60	32.14	38.00	70.14

* Government Investment only.

Source : Sixth Five Year Plan 1980-85.

---

* Farm Management Studies in the Command Area of Nagarjunasagar, project, Andhra University, Waltair.

[1] Krishna Bharadwaj, "Production conditions in Indian Agriculture", Cambridge University Press, Cambridge, 1974.

10,000 crores during the period between 1980-85.

Even though irrigation potential has increased tremendously, there are vast disparities among different regions. The regional distribution of irrigation development is given in Table-2. This Table compares the broad regional distribution of capital outlay on completed and near completion irrigation projects upto the year of 1979-80 and also the proposed outlay of Sixth Plan. The data refer to exactly comparable regions within the boundaries of the post-partition India.

The concentration of major irrigation expenditure in North and West regions, particularly Punjab and Haryana, when compared to their population is particularly striking. While these regions claim 36.6 per cent of the plan investment with a share of only 26.06 per cent of total population, the eastern region having a population share of 22.05 per cent, was able to get only 16.83 per cent in the investment. This may be treated as a major reason for the less developed agriculture in the states of Bihar and West Bengal. It is painful to note that no major effort has been proposed to correct these imbalances even in the Sixth Plan. Only 18.37 per cent of the total investment is allotted to this region. Upto 1979-80, they together claimed 36.6 per cent of the total investment and in Sixth Plan also, 36.72 per cent of the total outlay is allotted to these regions.

Though, in the earlier plans, South also claimed a high percentage of investment it has lost its priority through successive plans in percentage terms. While the investment in South is steadily declining, it has been increased progressively in the North and West regions. Especially in the Third Plan, massive amounts have been invested in irrigation in the north and western regions and it can be considered as an important factor for the success of "green revolution" in these areas. Through the successive plans, balance has clearly moved in favour of north and west regions and this has helped to correct the lopsidedness of major irrigation development and has placed in the inequalities at the existing minimum levels.

In Table-3 state-wise distribution of the availability of gross irrigated

TABLE - 2
REGIONAL DISTRIBUTION OF OUTLAY - PLANWISE

(Rupees in crores)

Plan	South	North	North East	East	West	Central	Total
Ist Plan	70.81	12.49	2.00	28.11	27.44	25.00	165.85
	(42.70)	(7.53)	(1.20)	(16.95)	(16.55)	(15.07)	(100.00)
IInd Plan	99.45	64.32	0.73	77.79	77.09	60.78	380.16
	(26.16)	(16.92)	(0.19)	(20.46)	(20.28)	(15.99)	(100.00)
IIIrd Plan	153.30	113.14	2.28	101.90	117.28	93.31	581.21
	(26.38)	(19.47)	(0.39)	(17.53)	(20.18)	(16.05)	(100.00)
Annnual Plans 66-59	103.51	47.97	3.09	84.98	96.97	61.81	398.33
	(25.99)	(12.04)	(0.78)	(21.33)	(24.34)	(15.52)	(100.00)
Fourth Plan	565.81	193.64	23.77	250.04	348.47	306.96	1,441.64
	(22.12)	(12.55)	(1.65)	(17.34)	(24.17)	(21.29)	(100.00)
Fifth Plan	565.81	296.25	31.76	366.95	604.95	494.71	2,360.43
	(23.96)	(12.55)	(1.35)	(15.55)	(25.63)	(20.96)	(100.00)
1978-79	298.23	193.50	34.69	212.06	228.19	292.88	1,252.55
	(23.25)	(15.45)	(2.77)	(16.93)	(18.22)	(23.38)	(100.00)
1979-80	298.23	196.69	35.79	208.96	275.84	312.00	1,327.51
	(22.47)	(14.82)	(2·60)	(15.74)	(20.78)	(23.50)	(100.00)
Upto 1979-80	1,901.10	1,118.00	134.11	1,330.79	1,776.23	1,647.45	7,907.68
	(24.04)	(14.14)	(1.70)	(16.83	(22.46)	(20.83)	(100.00)
Sixth Plan (Proposed)	1,901.04	1,281.31	256.60	1,854.90	2,426.86	2,377.25	10,097.96
	(18.83)	(12.69)	(2.54)	(18.37)	(24.03)	(23.54)	(100.00)
Total Outlay	3,802.14	2,399.31	390.71	3,185.69	4,203.09	4,024.70	18,005.64
	(21.12)	(13.33)	(2.17)	(17.69)	(23.34)	(22.35)	(100.00)
Share of Population (1981 Figures)	24.12	11.76	3.93	22.05	14.30	23.84	100.00

Source : Five Year Plans, Government of India.

TABLE - 3
DISTRIBUTION OF IRRIGATION POTENTIAL-STATEWISE

State/ Union Territory	Per 1000 population irrigation potential created (gross) upto the end of 1979-80 (acres)			per 1000 population proposed increase in (gross) irrigation potential during Sixth Plan		
	Major & Medium	Minor	Total	Major & Medium	Minor	Total
Andhra Pradesh	135.83	91.81	227.64	9.74	6,55	16.29
Assam	11.05	35.72	46.77	5.98	5.38	11.36
Bihar	86.73	82 59	169.32	9.52	14.54	24.06
Gujarat	74.91	104.09	179.00	7.66	5.68	13.34
Haryana	339.97	241.61	581.58	11.75	11.44	23.19
Himachal Pradesh	–	56.40	56.40	1.42	5.19	6.61
Jammu & Kashmir	43.81	129.22	173.03	6.69	4.18	10.87
Karnataka	71.62	67.68	139.30	10.80	8.50	19.30
Kerala	44.52	30.15	74.67	8.19	3.74	11.93
Madhya Pradesh	68.33	73.44	141.77	10.22	9.59	19.81
Maharashtra	48 65	64.30	112.95	8.77	5.18	13.95
Manipur	103.21	44.63	147.84	32.08	10.46	42.54
Meghalaya	–	44.43	44.43	–	11.30	11.30
Nagaland	–	134.54	134.54	–	12.94	12.94
Orissa	134.05	62.54	196.59	9.67	15.45	25.12
Punjab	342.13	431.82	773.95	10 62	14.40	25.02
Rajasthan	111.16	131.25	242 41	9.74	4.40	14.14
Sikkim	–	69.62	69.62	–	25.32	25.32
Tamil Nadu	60.29	96.51	156 80	1.37	3 46	3.46
Tripura	–	45.63	45.63	1.46	4.85	6.31
Uttar Paradesh	134.32	196.96	331.28	10.83	30.22	41.05
West Bengal	69.17	64.82	133.99	3.62	8.99	12.61
Sub total	97.48	109.57	207.05	8.49	11.80	20.29
Union Territories	2.56	25.26	27.82	2.15	4.60	6.75
All India	96.13	108.36	204.49	8 40	11.70	20.10

Source : Sixth Five Year Plan, 1980-85.

acreage per 1000 population (potential) from major, medium and minor irrigation schems upto 1979-80 and also proposed development potential during 1980-85 is presented.

It can be seen that only five states had per head irrigated acreage above the national average. Yet, of these states, two states, viz., Punjab and Haryana, show a spectacular irrigation development upto 1980. While Uttar Pradesh, Andhra Pradesh and Rajasthan have been clinging to the national average, the remaining states show meagre development of irrigation in these areas. These inequalities in irrigation development explains why particular states have well developed agriculture.

As a step towards correcting these imbalances, due care is taken, though not adequately, in the Sixth Plan. Relatively less developed states are given priority in getting the outlays. Sikkim, Manipur and Uttar Pradesh have got the highest proportion of the total outlay. Though it is healthy development the inequality in the availability of per head gross irrigated acreage still exists even after the Sixth Plan. Inequalities in irrigation infrastructure, in combination with other factors, have resulted in the inter-state disparities of other indicators also. The data on farm output, unemployment rate, growth of agriculture and incidence of poverty is presented in Table-4 for different states. The figures reveal that in the states where irrigation potential is high, the percentage of population below the poverty line and unemployment rate are low and moreover, agricultural growth and farm output is relatively high. In Punjab and Haryana where irrigation potential is abnormally high, the growth rates of agriculture and farm output are also exceptionally high. In these two states, unemployment rate and incidence of poverty is also very low. The states Andhra Pradesh, Uttar Pradesh and Rajasthan, where irrigation potential is slightly higher than the national average, with some exceptions, it can be stated that irrigation has a favourable impact on the indicators. The correlation between irrigation potential and percentage of population below poverty line is clearly negative, as we would expect. Moreover, the coefficients of correlations with agricultural growth rate and farm output/rural population are positive and also significant at 5 per cent level. But the correlation between irrigation potential and the rate of unemployment, though negative, is not significant. The reason is there are some states like Andhra Pradesh where irrigation potential is relatively high, but the unemployment rate is also high.

TABLE - 4

INDICATORS OF INTER STATE INEQUALITIES

States	Irrigated potential created to 1979-80 per 1000 population	Growth Rate of grain production 1961-62 / 1978-79 (% per annum)	% of Population below the Poverty line 1972-73	Person day Unemployment Rate 1977-78	Farm Output / Rural population
1	2	3	4	5	6
Andhra	227.64	1.7	54.9	10.8	506
Assam	46.77	2.2	46.9	1.8	453
Bihar	169,32	1.8	54.6	8.1	341
Gujarat	179.00	4.2	41.1	6.4	607
Haryana	581.58	5.1	23.1	6.9	1,032
Karnataka	139.30	3.0	50.7	9.6	592
Kerala	74.67	1.1	56.9	26.0	479
Madhya Pradesh	141.77	0.9	58.6	3.1	459
Maharashtra	112.95	2.5	47.7	8.2	555
Orissa	195.59	1.4	68.6	8.2	515
Punjab	773.95	6.4	21.5	5.0	1,161
Rajasthan	242.41	2.5	46.0	3.4	600
Tamil Nadu	156,80	1.9	59.6	16.1	442
Uttar Pradesh	331,28	2,5	52.6	4.3	427
West Bengal	133.99	2.5	56 9	10.4	511
All India	204.49	2.6	N.A	N.A	509

Source : Cols. 3 and 6 : Centre for Monitoring Indian Economy, 1979 Vol. 2.
Col. 6 : Raj Krishna's article.
Col. 5 : Draft Sixth Five Year Plan 1978-83 — Revised.

Thus it seems that some states are backward not because of their poor natural resources endowments but for the insufficiency of investment. Political decisions and *laissez faire* economics concentrated the investment in some regions while neglecting other regions. In these neglected regions the vicious circle of insufficient infrastructure, income and market growth sets in. There is a danger that : "Unless resource allocation is made deliberately and increasingly 'region conscious' and inter-regionally progressive, the vast mass poverty and unemployment concentrated in few states, will continue to grow".[2] To avert this undesirable situation, it is necessary that the policy makers should concentrate on the development of backward regions with a massive investment push of the same magnitude as the developed regions received in the past. In the words of Raj Krishna "a tilting of this investment, particularly in infrastructure facilities, in favour of the less developed regions can trigger other investments which inturn will generate new employment and income streams for the poor".

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

---

[2] Raj Krishna, "The centre and the periphery : Inter-State disparities in Economic Development", Social Action, Jan-March 1981, Vol-31, No.1, pp. 1-34.

Growth Rates of Irrigation — A Case Study of Andhra Pradesh and Karnataka

By **P. Devasena Naidu** *

As the countries of the Third World face the problem posed by high rates of population-growth, they are realising the importance of intensified agricultural production through the use of modern inputs and extension of the irrigated area. The case-study of the two southern states, made here, reveal that the efforts made by them to exploit their water resources are far from adequate.

AMONG the requirements of agricultural development, irrigation is indispensable. It is an ancient approach to promote agricultural productivity. Recent advances in agricultural research are also generating an enormous thirst for irrigation. The new seeds and associated modern technologies are abruptly altering the economies of both water use and water resource development. They produce more grain per unit of water since the increase in yields usually surpasses the increase in water use. Irrigation can raise the productivity of land in three ways by making possible multiple cropping, by increasing the yield per unit cost and by making possible the production of more lucrative crops. The yield per acre/hectare depends more upon the extension of area under irrigation rather than area under cultivation. There is therefore need to mobilise water resources for augmenting irrigation facilities. An attempt was made in this article to study the growth rates of irrigation in Andhra Pradesh and Karnataka since their formation. More precisely, this paper intends to study:

I. The growth rates of area under irrigation over a period of two decades in Andhra Pradesh and Karnataka.

2. The relative share of each source of irrigation to the total area irrigated in both the States; and

3. The relationship between the size of the holdings and extension of irrigated area.

Canals, tanks and wells constitute the main sources of irrigation in both the States. The net irrigated area in Andhra Pradesh has increased by 6.87 lakh hectares between 1956-57 and 1976-77. This works out to 25 per cent. The net area irrigated by different types of irrigation in Karnataka during 1976-77 was 12.15 lakh hectares as against 7.40 lakh hectares during 1956-57, representing an increase of 4.75 lakh hectares or 64.2 per cent. The area irrigated more than once was 2.51 lakh hectares during 1976-77 or 20.7 per cent of area irrigated more than once to net area irrigated. The following table presents clear picture of the area irrigated under different sources.

A perusal of the Table-1 reveals that Andhra Pradesh enjoying higher percentage of area under canals irrigation accounting for more than 40 per cent since 1956–57. The area under tanks comes next to canals with 38.9 per cent, 41.0 per cent and 31.7 per cent during 1956-57, 1966-67 and 1976-77 respectively. The next source of irrigation goes to wells and registered an increase of 119.37 per cent during 1976-77 over 1956-57. In Karnataka, the area under canals and wells recorded constant increase over base year. As against this, area under tanks witnessed steady fall from 44.2 per cent in 1956-57 to 21.0 per cent in 1976-77.

But in Andhra Pradesh, the actual net area under irrigation was nearly three times higher in comparison with Karnataka, it being 34.33 lakh hectares against 12.15 lakh hectares in Karnataka. But in terms of percentages, the increase in area under canals was more rapid in Karnataka against the mild increase in Andhra Pradesh, the respective shares being 210.90 per cent and 24.24 per cent. Both the States noticed a fall in the percentage of area under tanks. As against this, both Karnataka and Andhra Pradesh witnessed considerable increase in area under wells during the present decade. The main reason for the marked increase is the extension of power supply to a large number of

TABLE–1

TRENDS IN AREA IRRIGATED BY SOURCES

(Area in lakh hectares)

	Source	ANDHRA PRADESH			KARNATAKA		
		1956-57	1966-67	1976-77	1956-57	1966-67	1976-77
1.	Canals	12.91 (47.0)	12.47 (40.7)	16.04 (46.7)	1.65 (22.3)	3.75 (36.8)	5.13 (42.2)
2.	Tanks	10.67 (38.9)	12.57 (41.0)	10.88 (31.7)	3.28 (44.2)	3.20 (31.3)	2.56 (21.0)
3.	Wells	2.84 (10.4)	4.62 (15.0)	6.23 (18.2)	1.29 (17.5)	1.78 (17.4)	3.27 (26.9)
4.	Other Sources	1.02 (3.7)	1.01 (3.3)	1.16 (3.4)	1.18 (16.0)	1.48 (14.5)	1.20 (9.9)
5.	Total :	(27.46) (100.0)	30.69 (100.0)	34.33 (100.0)	7.40 (100.0)	10.21 (10.00)	12.15 (108.0)

Note: Figures in brackets denote percentages.

---

* Mr. P. Devasena Naidu is Lecturer in Economics, S. V. University P. G. Exten. Centre, Kavali, Nellore Dist.

agricultural pumpsets in recent years.

Irrigated area under different sources reveals only the relative share of each source to the total area irrigated. But the percentage of the area irrigated to the area cultivated is more important rather. Out of the net area sown of 106.12 lakh hectares in Andhra Pradesh, 33.44 lakh hectares of area was irrigated in 1976-77 or 32.4 per cent. Against this Karnataka observed 13.20 per cent of area under irrigation. The worked out percentages relating to net area irrigated to net area sown are tabulated in Table–2.

A glance at the Table reveals a constant increase in net area irrigated to net area sown in both the States. In percentage terms, the increase was 25.0 during 1976-77 over 1956-57 in Andhra Pradesh against 64.2 per cent in Karnataka for the same period. But the increase in net area under irrigation was by 6.87 lakh hectares during 1976-77 over 1956-57 in Andhra Pradesh against 4.75 lakh hectares in Karnataka.

The ultimate irrigation potential of Andhra Pradesh is estimated at almost 103.2 lakh hectares, comprising 64.8 lakh hectares under major and medium irrigation projects, 20.2 lakh hectares under minor irrigation and the rest based on underground water sources. During 1976-77, the gross area irrigated was 41.56 lakh hectares. This means that only about 40.27 per cent of the ultimate potential has been utilised.

Though both the States have realised the importance of irrigation, their efforts are inadequate to exploit the surface water and ground water resources. This was true not only in case of Andhra Pradesh and Karnataka but also in most of the under-developed countries. In the words of Lester R. Brown that four fifths of the world's irrigated land is located in Asia, the Middle East, and North Africa–regions. But the distribution of irrigated land is very uneven and the total acreage inadequate. In Asia, where nine tenths of the world's rice crop is produced, only a third of the rice land is irrigated. Most of the reminder is rainfed. In Thailand and India, only one fifth and one third, respectively, of the rice crop is irrigated, but in Taiwan and Japan, where highly sophisticated irrigation systems have been developed, nearly all the rice crop is irrigated. Thus much of the potential for irrigation in Asia has yet to be realised.

According to the 1970-71 World Agricultural Census conducted in Andhra Pradesh, out of the gross cropped area of 121.28 lakh hectares, gross irrigated area accounted to 36.64 lakh hectares or 30.21 per cent. The same was 12.89 per cent in Karnataka with 13.63 lakh hectares of gross irrigated area of 105.74 lakh hectares of gross cropped area. A better picture is revealed when we examine the distribution of land holdings by irrigation. This is presented in Table–3.

The percentages of irrigated area to the gross cropped area reveal interesting trends. The size group below 0.5 hectares accounted the highest percentage of irrigated area to its credit being 64.80 per cent in Andhra Pradesh against 61.39 per cent in Karnataka. Area under irrigation witnessed lower and lower amount of percentages steadily and continuosly as the size of the holding increased higher and higher in both the States. In other words, larger holdings registered higher and higher amount of area under rainfed in proportion to irrigated area except for the size group of 10.0 to 20.0 hectares in the case of Karnataka.

Hence, it was realised that increase in population leads to an increase in the demand for foodgrains which in turn depends on the extension of the area under irrigation. To quote again Lester R. Brown, "As population pressess more and more on the available supply of water in the poor countries, the efficiency of water use will ultimately determine to a large degree the supply per person. Increasingly, the lack of water rather than of land is limiting food production. We must therefore, begin to concern ourselves more with man-water ratios and less with man-land ratios."

TABLE-2

NET AREA IRRIGATED TO NET AREA SOWN

	ANDHRA PRADESH			KARNATAKA		
Year	Net area' irrigated (lakh hectares)	% of net area irrigated to net area sown	% increase over 1956-57	Net area' irrigated (lakh hectares)	% of net area irrigated to net area sown	% increase over 1956-57
1956-57	27.46	25.1	—	7.40	7.35	—
1966-67	30.69	27.1	11.8	10.21	10.20	38.0
1975-76	34.36	30.8	25.1	13.64	13.16	84.3
1976-77	34.33	32.4	25.0	12.15	13.20	64.2

TABLE-3

DISTRIBUTION OF LAND HOLDINGS BY IRRIGATION : 1970-71

		ANDHRA PRADESH		KARNATAKA	
		Percentage to gross cropped area		Percentage to gross cropped area	
Sl. No.	Size Class (hectares)	(Irrigated)	(Unirrigated)	(Irrigated)	(Unirrigated)
1.	Beloow 0.5	64.80	35.20	38.61	61.39
2.	0.5 — 1.0	52.48	47.52	24.89	75.11
3.	1.0 — 2.0	41.12	58.88	17.76	82.24
4.	2.0 — 3.0	32.12	67.10	15.64	84.36
5.	3.0 — 4.0	31,01	69.99	13.88	86.12
6.	4.0 — 5.0	28.00	72.00	12.98	87.02
7.	5.0 — 10.0	24.62	75.38	10.70	89.30
8.	10.0 — 20.0	20 40	79.60	8.32	91.68
9.	20.0 & above	18.48	81.52	10.17	89.83

Conclusion

1. Both Andhra Pradesh and Karnataka registered a tremendous growth in area under irrigation since their formation. Yet, the extension of the area under irrigation is inadequate.

2. The available irrigation potential was not fully utilised. Both surface water and ground water resources in Andhra Pradesh as well as in Karnataka are yet to be fully tapped.

3. Year by year, the relative contribution of wells in proportion of other sources was increasing impressively against tank irrigation.

4. The size of the holdings and extension of area under irrigation revealed inverse relationship in both the States.

5. The proportion of irrigated area in relation to the rainfed area is higher in Andhra Pradesh than in Karnataka.

REFERENCES :

1. Lester R. Brown, "Seeds of Change - The Green Revolution and Development in the 1970s." Praeger Publications, New York, Third Print [1972].

2. P. Devasena Naidu, "Agricultural Development in Andhra Pradesh" Unpublished M. Phil. Dissertation, S.V. University, Tirupathi [1978].

3. Data News Features, "Andhra Pradesh Changing Horizons" Hyderabad [1980].

4. Government of India, "All India Report on Agricultural Census 1970-71"

5. Government of Andhra Pradesh, "Yearwise Publications of Statistical Abstracts and Season & Crop Reports" Bureau of Economics and Statistics, Hyderabad.

6. Government of Karnataka, "Yearwise Publications of Statistical Abstracts and Season & Crop Reports" Bureau of Economics and Statistics, Bangalore.

BOOK REVIEW

Pros and Cons of IMF Loan

THIS monograph by an economist of the eminence of Dr. P.R. Brahmananda is a timely and dispassionate analysis of the I.M.F's loan to India which aroused a political furore in the recent past. What led the author to write this small book was the issue of a white paper on the IMF loan by the West Bengal Finance Minister, Dr. Ashok Mitra, in which the loan was termed as unnecessarilly large, tramelled with conditions, and involved surrender of the country's economic sovereignty. Dr. Brahmananda considers it 'very unfortunate' that the loan which is purely an economic issue, should have been mixed up with 'political and ideological considerations'.

The monograph consists of six parts devoted to the study of the background to the loans ; effects of the mechanism of absorption; the attack syndrome; rethinking on economic policy; policy for reversing inflation rate, and immediate follow up. It contains nine appendices two of which are written by other economists.

Much water has flowed down the river since India applied for the IMF loan in early 1981. After prolonged consultations and a controversy casting a shadow over Indo-USA relations, the IMF granted the loan of 5 billion SDR, equivalent to Rs. 5,234 crores under, the extended facility. The loan is to be disbursed over a period of three years covering 1982-84.

Dr. Brahmananda has termed the loan as "unique in a number of respects". As the biggest loan from IMF it covers the trade deficits of the Sixth plan, and provides a "unique opportunity for wiping out the scourage of inflation". The IMF, which came into being in 1945 under the Brettonwoods agreement, has been primarily providing short and medium term credit to the member countries. The Extended credit facility was introduced in 1974. So far this scheme has not been popular with the member-countries. Till 1981, only 7.7 billion SDR had been allocated to 20 members, all non-oil producing countries. The Scheme carries conditionality clauses. The binding performance clause consists of the stipulation to observe specified ceiling on domestic credit expansion rate.

Tracing the genesis of the loan, the author has convincingly spotlighted the BOP situation of the country. During 1980-85, the trade gap is projected to be of the order of Rs. 17,800 crores. The import bill of oil would amount to Rs. 20,000 crores. If the Sixth Plan oil production targets are realised, the country's dependence on imported oil will be reduced from 69 per cent to 29 per cent.

Dr. Brahmananda has cautioned that the IMP loan, "a landmark event," is a temporary phenomenon. It gives a necessary breather for overcoming the hurdles in the path of higher growth, self-reliance, poverty-eradication and expansion of employment opportunities. The author has defended the loan with irrefutable facts and logic, from a purely economic stand-point. But the reviewer feels that in the modern age, economic issues cannot be treated in isolation. India, on her part, may be fully justified in obtaining this loan from an institution whose duty is to help the members in BOP distress.

But the occasion also highlights the future role of IMF *vis-a-vis* the Third World The IMF is so far not able to shed its rich-man's club mentality. Conditionality bordering on ideology and policy matters are eroding IMF's credibility. Can't IMF, which deals with independent sovereign nations and not with individual loanees, design better modalities for asistance to the member to suit their asspirations. Dr. Brahmananda deserves to be complimented for putting the issues in the correct perspective.

—B. Kumar

---

* THE IMF LOAN AND INDIA'S ECONOMIC FUTURE by P. R Brahmananda, Himalaya Publishing House, Bombay - 400004, Pages 95, Rs. 10.

All-round Progress by Larsen and Toubro

CONSEQUENT on the change in the accounting year from March-end to September-end, the 37th annual report of Larsen & Toubro covers a period of Six months commencing April 1, 1981. Figures for this period, therefore, can be compared only with the six months of the previous year. L&T's sales for the latest six-month period (April 1 to September 30, 1981) amounted to Rs. 82.6 crores, against Rs. 60.9 crores in the corresponding period of the previous year, showing an increase of 36 per cent. At Rs. 119 crores, order-booking during these six months were higher by 39 per cent.

The group's turnover, taken as a whole, stood at Rs. 128 crores for the six month period, against Rs. 203 crores for the 12 months of the previous year. For this period, the directors have recommended a dividend of 90 paise per share of Rs. 10. The company has received the consent of the authorities for issuing bonus shares in the ratio of 3:5. The ratio of after-tax profit to net worth, for these six months, stood at 25 per cent, against 20 per cent in 1980-81. The company's net worth is Rs. 58.81 crores comprising the share capital of Rs. 15.52 crores and reserves of Rs. 43.29 crores.

Practically all the subsidiaries of L&T have done well. The Engineering Construction Corporation Limited has increased its turnover from Rs. 30.7 crores to Rs. 42.7 crores (year-ended September 30, 1981). Utkal Machinery Limited has increased its sales from Rs. 24.6 crores to Rs. 26.6 crores. Ewac Alloys Limited has stepped up its sales from Rs. 3.1 crores for the 9-month period ended September 30 1980 to Rs. 3.8 crores during the corresponding period in 1981. L&T McNeil Limited has shown an increase in its sales from Rs. 2.4 crores to Rs. 2.7 crores. L&T Singapore has recorded sales of Rs. 12 crores for the initial 9-month period. Among the associate companies, Audco India Limited witnessed a rise in its sales from Rs. 7.3 crores to 8.3 crores. Tractor Engineers Limited has improved its sales from Rs. 3.9 crores to Rs. 5 crores. The Chairman, Mr. N.M. Desai has pointed out that with the increasing demand for the company's products and its ability to meet this demand, L&T will show better performance in coming year.

Good Year India Sales Improve

GOOD year India's sales improved to Rs. 109.6 crores during 1981 from Rs. 90.4 crores in 1980. The net income for the year ended December 31, 1981 rose to Rs. 3.02 crores (previous year Rs. 2.17 crores) after providing depreciation of Rs. 69.86 lakhs (Previous year Rs. 63.77 lakhs), invesment allowance Rs. 38 lakhs (previous year 5.25 lakhs) and income-tax provision of Rs. 384.3 lakhs (previous year Rs. 33.8 lakhs). The Company's factory at Ballabgarh produced 7.43 lakhs automotive tyres as against 6.39 lakhs in the previous year. Power shortages continued to impede productivity programmes in the plant. The Directors of the Company have recommended a dividend of Rs. 1.60 per equity share (previous year Rs. 1.20) payable out of the year's earnings in accordance with law.

1:2 Bonus Issue By Walchandnagar

This being the Centenary Year of Seth Walchand Hirachand's birthday, the Directors of Walchandnagar Industries Ltd., have rewarded shareholders with a liberal Bonus Issue in the ratio of 1:2. They also expect to maintain 16 per cent dividend on the enlarged capital. The accounts for the last four years, which were withheld on account of amalgamation of Cooper Engineering and Tiwac Industries with Walchandnagar, have now been finalised. The turnover of the Company has risen from Rs. 19.69 crores in 1976-77 to Rs. 59.58 crores in 1980-81. Despite the amalgamation of the sick units, the Company has been able to pay 16 per cent dividend throughout the period. It has also built up the reserves. The net worth has risen from Rs. 6.56 crores in 1976-77 to Rs. 13.54 crores in 1980-81. During the year ended September 1981, the Company recorded a turnover of Rs. 59.58 crores, gross profit of Rs. 3.25 crores, and after-tax profit of Rs. 2.03 crores. The Company has already declared and paid 16 per cent dividend which absorbs Rs. 32 lakhs.

Trichy Steel Rolling Shows Poor Earnings

At Rs. 51.22 lakhs, the pre-tax profit of Trichy Steel Rolling Mills Limited has not shown much improvement over that of the previous year. During the year ended September 30, 1981, the company's sales amounted to Rs. 9.74 crores compared to Rs. 7.83 crores in 1979–80. Equity dividend, at 15 per cent, absorbs Rs. 5.55 lakhs. The directors point out that the poor profitability is due to the steep increase in the cost of raw materials and the high interest rate. In terms of quantity produced, the company recorded a modest improvement. The production of bars, rods and structurals improved from 23,079 tonnes to 23,943 tonnes while the production of ingots rose from 11,876 tonnes to 12,763 tonnes. With the installation of continous casting machine some time later this year, production is expected to show improvement.

Credit Control: Illusion and Reality

By THE EDITOR

WHETHER one takes the figures for the calendar year (January-December) or the financial year (April-March), there can be no two opinions over the fact that the past year was one of difficulties for the Indian Banks. Going by the calendar year, the deposits of the scheduled commercial banks grew at an impressive rate of 17.9 per cent in 1981. Even so, it indicated a deceleration when compared to the growth rate of over 19 per cent they recorded in 1980. Incomplete as it is, the data for the financial year show a deposit growth rate of 15.2 per cent for the period up to January 8, 1982. Not much need be made of the fact that this is marginally higher than the growth rate registered in the corresponding period, in 1980-81.

As the RBI Governor told the bankers at the time of outlining the credit policy for the slack season (May–October), the growth of deposits was much lower in the second half of the year than in the first half. The situation seems to be worse than even the sombre assessment of the Governor. During the three months, January–March 1982, there has actually been a decline of the order of Rs. 260 crores in deposits, against an addition of Rs. 836 crores during the corresponding months in 1981. Thus, when complete figures for deposit-accretion in 1981-82 are computed, they will probably reveal that the growth rate of deposits in 1981-82 was much lower than in 1980-81.

The implications of this unexpected deceleration on the new credit policy are yet to be assessed in all seriousness. To be sure, the modified credit policy announced on April 8 is based on a certain order of deposit growth during a period when the busy season tapers off and the slack season sets in. Now, the reported decline in deposits in the last quarter of 1981-82 is sure to upset the calculations on which the new policy is based. In terms of actual policy-formulation, it may warrant a further liberalisation of the Cash Reserve Ratio from the reduced level of 7.25 per cent and probably a lowering of the statutory liquidity ratio which remains unchanged at 35 per cent. In the normal course, the Reserve Bank would have made a mid-season assessment by June-end. But the apparent worsening of the resource-position of the banking system warrants an earlier review.

It is a saving grace that there has been no major erosion in the growth of term deposits, the deceleration being confined largely to demand deposits. This is explained by the upward revision of deposit interest rates announced on March 2, 1981. One may hope that the rate of accretion of deposits as a whole, and time deposits in particular, will improve, now that the Reserve Bank has announced another upward revision of the interest rates on deposits of short and medium maturities. Even so, competition with non-banking institutions is bound to be severe, when one considers that public

CONTENTS

Credit Control: Illusion and Reality — *The Editor* 1
Higher Rate of Credit Growth Reflects Economic Recovery 5
Easier Credit for Coming Slack Season 6
Indian Banking in Historical Perspective — *K. Chandrasekhar* 7
Some Key Issues Related to Banking Growth — *P. C. Misra* 11
Profitability and Productivity in Banks — *K. K. Ammannaya* 15
Growth Profile of Public Sector Banks during First Decade of Nationalisation — *B. Kumar* 19
Recent Trends in Commercial Banking — *A. K. Sinha* 21
Is there a Need to Restructure Banks? — *Abdul Momin* 25
Role of Banking in Rural Development — *Naresh Jha* 29
Can NABARD Provides New thrust for Rural Credit? — *R. S. Tiwari* 32
Role of Exim Bank in India's Foreign Trade — *R. L. Mathur* 35
Urban Co-operative Banks: Their Growth and Problems — *B. L. Vaishnav* 37
Off-shore Banking and its Prospects: A View from India — *A. Raghurama* 40
100 Years of Post Office Savings Bank 41
Slow-Down in International Bank lending — *K. Burke Dillon* 43
Origin and Development of Arab Banks: Survey of their Present Operations — *Alexander E. Fleming* 45
Who's Who Among Bankers 49

limited companies, for instance, offer an interest-advantage of 3 to 4 per cent but not all savers are attracted into this avenue, in view of the inherent risk involved in this kind of investment.

The monetary authority cannot afford to take the view that "to the extent more deposits and debentures were raised by the corporate sector, the pressure on the banking system was relieved". Does it need to be told that this kind of diversion of savings will, besides weakening the *raison d' etre* of the banks, result in a loss of interest income that would have normally added to the banks' profitability ? This is not to suggest that the banks are well on the way to losing the race for deposits.

Since nationalisation, in 1969, the deposit-growth has been phenomenal, thanks to the speedy expansion of branches. With all their short-comings, the banks provide an ideal avenue for mobilising savings. They face no great danger in this regard. But the banks can remain the major repository of savings only if they offer interest rates which are at least a few percentage points higher than the prevailing rate of inflation. Why should the saver put his money in the bank, in the shape of term deposits yielding say, 10 per cent, if the inflation is running at 15 per cent ? Taking a macro view, the banks are far from reaching the saturation point. Bank deposits account for about 35 per cent of the national income. Even if this can be raised to 50 per cent during the eighties, which is not a very tall order, the banks will be comfortably placed in the matter of meeting the demand of their clientele for credit.

Considering that the average growth rate of deposits is three to four times higher than the average growth rate of national income, it should be possible to achieve a ratio of 50 per cent within a decade. Yet, the monetary authority should deeply ponder as to why, inspite of an impressive nationwide spread of branches, the banks have not been able to make a dent in the expanding parallel world of unaccounted money. So long as they do not come up with a satisfactory answer to this riddle, the monetary policy will continue to be an exercise in futility.

In contrast to the sluggish growth in deposits, bank credit has accelerated at a faster pace. During calendar year, 1981, credit expanded by 19.7 per cent, against 14 per cent in 1980. Complete figures for the financial year 1981-82 are not yet available but it is a fair surmise that the credit growth in 1981-82 (April-March) has been of a higher order than in 1980-81. Upto January 8, 1982, credit growth has been of the order of 16.2 per cent, against 11.4 per cent for the corresponding period, in 1980-81.

Some significant points emerge from a study of this trend. To the extent that the rate of growth of credit exceeded that of deposits, it placed a severe strain on the banks which had to, of necessity, approach the "lender of the last resort" for additional accommodation. Not surprisingly, this invited frowns from the Reserve Bank. In the context of inflation running close to two digits, a rise in bank credit bordering on 20 per cent in 1981 was out of proportion to the GNP growth rate which was 4.5 per cent in 1981-82. Superficially, at any rate, this gave one the impression that money supply, of which credit is an integral part, has been the main cause of the rise in prices.

While one cannot question the validity of this generalisation, the adequacy or otherwise of bank credit has to be judged in the light of the deployment of credit, sectorwise. For instance, the rise in food credit cannot be considered as inflationary since it is set against higher food production. Similarly, the impressive growth in non-food credit is explained by the continued improvement in industrial production. Furthermore, in a system of regimented banking such as ours, there are bound to be some distortions in the pattern of credit growth. This happens because the banks will be constantly under pressure to step up credit to certain preferred sectors, even when the overall monetary policy dictates that the rate of credit expansion should be brought down. Banks have their sacred cows to look after, and in a country where cows are held in great esteem, the banks cannot be faulted for over-feeding them.

Be that as it may, it is fair criticism of the manner in which central banking control is exercised in this country to say that less attention is paid to deposit mobilisation than to credit regulation. One committee after another (Tandon Committee, Chore Committee and so on) went into the question of how to re-order their lending methods and priorities. And the banks are finding it difficult to observe the norms handed down by these committees. But the monetary authority has not taken the same trouble to find out why the banks have not been able to achieve a real breakthrough in deposit mobilisation. Why, inspite of the phenomenal branch expansion witnessed in the seventies, a good percentage of our population hesitate to enter the portals of the bank offices ? Why indigenous money lenders continue to do a roaring business, inspite of the usurious rates of interest they charge, when the nationalised banks are supposed to make them redundant ? Why non-banking institution—the public limited companies, in particular—continue to take away a chunk of the country's savings when the commercial banks offer better protection for the people's money ?

There is no easy explanation for these incongruities. One guess may well be that the competitive urge—the urge to mobilise savings and give the best service to the people—has weakened since nationalisation. The truism that deposits and advances represent two sides of the same coin is not well appreciated by the monetary authority and by our bank managers. It is not sufficiently realised that the bank offices are not mere deposit-collection centres. Besides, the managers should, in their day-to-day dealings with their clients, shed the feeling that they are doing a favour to the person who approaches them for a loan. Form-filling is necessary but it need not be made much of. It is only when formalities are reduced to the minimum that the people get closer to the banks.

If we emphasise these seemingly inconsequential points, it is because they provide a clue to the questions we raised in the earlier paragraph. In a sense, the banks do create money but they cannot create money out of thin air. The entire exercise of credit planning and deployment of credit on the basis of certain priorities becomes futile if the banking industry does not pay special attention to deposit mobilisation. That the interest rates offered by the banks should be attractive to the savers goes without saying. But interest-elasticity of deposits can be easily exaggerated. Why do people keep money in numbered accounts in Swiss Banks even if the interest rate offered by the Swiss Banks is often lower than the rates prevailing in other countries? Why are certain banks in Islamic nations thriving inspite of the fact that they consider interest-giving and interest-taking as opposed to the tenents of Islamic religion? We cite these instances, not to belittle the importance of interest in mobilising savings but to point out that there are many factors, other than interest, which influence people to keep their money in banks.

The bane of nationalised banks continues to be their excessive politicisation. Although the purpose of nationalisation was to redress the imbalance found in the dispensation of credit—this has been achieved to a large extent—bank credit has not reached the small man or the entrepreneur with meagre means on the required scale. Bank managers often oscillate from one extreme (of being over-liberal in sanctioning loans) to another (of being excessively procedure-conscious). What does not find mention in the annual reports of banks or the statutory reports of RBI is the extent of misdirected credit or credit going to the wrong set of persons. Like icebergs, these disqueting features lie below the surface, for the most part.

Nationalised industries—banks included—function well only where political interference and bureaucratisation are minimal. The autonomy of the central banking institution is seriously eroded by the authority exercised by the Finance Ministry whose decisions often acquire a political tinge in view of the populist policies it has to support. There is nothing wrong with the implementation of the revised 20-point programme. But the unwritten part of it, which no banker can afford to ignore, is that the benefits of this programme should go to those who support the ruling party. The party in power, be it Congress (I), Janata, CPM or AI-ADMK, expects the banks to function in such a way that it strengthens that party's vote banks.

What are the consequences of this politician-banker nexus? For one thing, bank credit goes largely to those who enjoy political clout. And those with political clout often turn out to be the worst defaulters. In fact, the high percentage of overdues in the agricultural sector – and the as yet unpublicised percentage of written off debts – can be traced to this vicious nexus. Again, it is good to have a board of management consisting of specialists from different fields but in actual practice, these boards are packed with yes-men and nonentities who profess loyalty to the party in power.

If, inspite of these constraints, the nationalised banks have managed to keep their heads above water, it is because this sector still contains a fair sprinkling of competent managers who have shown dynamism in entering new fields (offshore banking, for instance) and in introducing new concepts in customer service. But yet, if the profitability of our banks is meagre, by international standards, it is because the bulk of their funds continues to be deployed in avenues yielding low rates of interest, whether it is priority sector lending, DIR loan or investment in gilt-edged securities.

Viewed against this background, there is no possibility of our banks achieving a major break through unless the rulers in New Delhi impose on themselves a self-denying ordinance and facilitate the ushering in of competitive banking in this country. And, it goes without saying that the *sine qua non* of competitive banking is central banking autonomy. While it will be too much to expect RBI to function with complete autonomy—the Government of India, as the owner of these banks, has to provide the necessary direction—it is possible to de-link our banks from politics provided the ruling party has a genuine desire to establish healthy norms.

Southern Economist
PREMIER FORTNIGHTLY
OF ECONOMIC OPINION
Now in its 20th year
Editorial Office :
106-108, Infantry Road,
(Saleh Ahmed Building)
BANGALORE - 560 001.
Annual Subscription :
Rs. 50 : Single Copy Rs. 2-25

SAVING IS THE FINEST EXPRESSION OF ECONOMIC CONSCIOUSNESS

ANDHRA BANK HAS DEVISED SCHEMES TO HELP YOU EXPRESS THIS CONSCIOUSNESS IN MANY WAYS.

OUR SCHEMES ARE TAILOR-MADE TO SUIT EVERY NEED TO HELP THROUGH THE YEARS AHEAD.

KIDDY BANK	— a delight for children to save money
KALPATHARUVU	— the scheme to fulfil your dream like construction of house, marriage, education etc.
KARSHAKA SAHAYA	— for the help of farmers
GRUHALPA	— for a roof of your own
SAMRAKSHA	— bestows a secure, peaceful, retired life
SAMKSHEMA	— for security against accidents
CREDIT CARD	— sign for the goods and services and pay for them later
TRAVELLERS CHEQUES	— for safe landing with our US $ and Sterling Pound Travellers cheques

and many such other schemes........

ANDHRA BANK — the bank responsive to people's needs

ANDHRA BANK

(A Govt. of India Undertaking)

Central Office: **Sultan Bazar Hyderabad-500 001**

Higher Rate of Credit Growth Reflects Economic Recovery

DURING 1981-82, gross bank credit by scheduled commercial banks, (including participation certificates and bills rediscounted with RBI) till January 8, 1982 expanded by Rs. 4,120 crores (16.2 per cent) which was substantially higher than the increase of Rs.2,522 crores (11.4 per cent) registered in the corresponding period of 1980-81. This was due to the substantial increase in both food and gross non-food credit. Food credit had shown a rise of Rs. 649 crores compared with Rs. 36 crores in the corresponding prvious period, due to a step up in food procurement following the substantial recovery in agricultural production particularly in rabi season in 1980-81. Gross non-food credit, likewise, rose by Rs. 3,471 crores compared with Rs. 2,486 crores in the corresponding period last year. The factor contributing to this rise was the continued improvement in industrial production in 1981-82. The rise in administered prices of key inputs and import of additional quantity of sugar and edible oils also led to higher demand for credit in 1981-82. At the same time the flow of credit to the priority sectors was stepped up.

The rise in aggregate deposits of scheduled commercial banks (1981-82) up-to January 8, 1982 at Rs. 5,804 crores was larger than that of Rs. 4,760 crores recorded in the same period of 1980-81. This represents a growth rate of 15.2 per cent as against 14.8 per cent last year. The gross credit-deposit ratio at 67.4 per cent on January 8, 1982 was higher than 66.1 per cent as an March 31, 1981. Both demand and time deposits showed further growth during 1981-82. Demand deposits showed a rise of Rs. 1,122 crores till January 8, 1982, giving a growth rate of 14.0 per cent compared with the increase of Rs. 455 crores or 6.7 per cent in the corresponding period of the previous year. Time deposits also increased by Rs. 4,682 crores during the period compared with the increase of Rs. 4,305 crores in the same period of 1980-81. The growth rate in time deposits, at 15.5 per cent was, however, lower than the 16.9 per cent during the corresponding period least year.

The upward adijustment in bank deposit rates announced following the Union Budget for 1981-82 was a positive factor contributing to the growth of time deposits during the year. This came about despite still higher interest rates allowed on industrial debentures and company deposits. To the extent that more deposits and debentures were raised by the corporate sector, the pressure on the banking system was relieved. The sustained growth in time deposits also showed that the attractiveness of time deposits as providing safe and reasonable return on savings continued, particularly in view of the recent decline in the rate of inflation.

Banks' borrowings from the RBI increased by Rs, 39 crores till January 8, 1982 as against a decline of Rs. 212 crores during the corresponding period of 1980-81. There was an increase of 46 crores in the cash reserves of banks during the period which was slightly higher than Rs. 38 crores in the comparable period of the previous year. The cash-deposit ratio, however, declined from 14.3 per cent on March 31, 1981 to 12.5 per cent on January 8, 1982. In the preceding year, the decline in the ratio was from 13.6 per cent to 12.0 per cent. The increase in investments in Government and other approved securities at Rs.1,999 crores was smaller than that of Rs. 2,877 crores in the same period last year. Consquently, the investment-deposit ratio declined to 34.1 per cent on January 8, 1982 from 36.2 per cent as on January 9, 1981.

Generally easy conditions prevailed in the inter-bank call money market during the first four months of 1981-82. The market tended to improve during August-September 1981 and ruled distinctly firm thereafter. The call money rate in Bombay, which was quoted far below the ceiling level till July 1981, firmed up to 8-9 per cent in August and ruled at the ceiling of 10 per cent throughout October 1981 to January 1982. In 1980-81, the money market rates had ruled easy during the greater part of the year and were quoted much below the ceiling rate of 10 per cent thus reflecting a comfortable liquidity position of banks.

Data on sectoral deployment of Bank credit are available for 1979-80, 1980-81 and the first six months of the current financial year, 1981-82. The expansion of bank credit in 1979-80 and 1980-81 was entirely on account of the increase in gross non-food credit. In 1979-80, of the total increase in gross non-food credit, priority sectors accounted for 41.9 per cent, followed by industry (medium and large) with 34.3 per cent and the remaining 23.8 per cent was shared by wholesale trade and other sectors of the economy.

During 1980-81, the share of the priority sectors in the non-food incremental credit increased to 45.1 per cent, that of industry to 44.0 per cent while the share of trade and other sectors together got reduced to 10.9 per cent. The share of agriculture in total advances to priority sectors, which was 45.1 per cent in 1979-80, increased marginally to 45.9 per cent in 1980-81. The share of small scale industries which was comparatively less at 34.2 per cent in 1979-80, declined further to 33.9 per cent in 1980-81.

The share of other sectors in total credit to priority sectors was marginally lower at 20.2 per cent in 1980-81 as against that of 20.7 per cent in 1979.80. The growth in export credit by Rs. 10 crores in 1980-81 was much below the increase of Rs. 140 crores in 1979-80. This could be attributed to the sluggish growth in exports in 1980-81 compared with the earlier years.

For 1981-82, data on credit deployment are available for the first six months of April-September 1981. During this period, gross bank credit showed an increase of Rs. 1,817 crores, which was more than four times the increase of Rs. 450 crores recorded in the same period of 1980-81. Although this increase was shared both by food credit and non-food credit, the latter accounted for the bulk of the increase. Thus, while the increase in food credit was of the order of Rs. 116 crores (in contrast to the decline of Rs. 251 crores in the corresponding period of last year), the increase in non-food credit amounted to Rs. 1,701 crores which was more than double the increase of Rs. 701 crores in the same period in the previous year.

Advances to priority sectors during April-September 1981-82 also showed an increase of Rs. 1,065 crores compared with that of Rs. 530 crores in the corresponding period of 1980-81. All the categories in the priority sectors shared in this increase. Thus, advances to agriculture registered an increase of Rs. 557 crores as against Rs. 355 crores in the similar period of 1980-81. Similarly, advances to small scale industries shot up by Rs. 288 crores, and to 'other categories' by Rs. 220 crores compared with the increase of Rs. 97 crores and Rs. 78 crores for the respective categories in the comparable period of 1980-81.

Advances to wholesale trade registerd an increase of Rs. 141 crores in contrast to the decline of Rs. 129 crores recorded in the previous year. Within the wholesale trade sector, advances to the Food Corporation of India (FCI) for fertiliser credit showed an increase of Rs. 95 crores and advances to the Jute Corporation of India (JCI) and other trade went up by Rs. 3 crores and Rs. 135 crores respectively. However, advances to the Cotton Corporation of India (CCI) decreased by Rs. 92 crores. Export Credit showed an increase of Rs. 86 crores during April-September of 1981-82, in contrast to the decrease of Rs. 38 crores in the similar period of 1980-81. The rise in export credit was expected because of the recovery of exports in the current year. These trends in credit deployment are tentative but broadly conform to the sectoral priorities for credit deployment.

The outstanding bank advances (excluding PCs) at the end of September 1981 were Rs. 26,873 crores while the outstanding advances to priority sector were Rs. 9,551 crores. The priority sectors' share in total outstanding advances at the end of September 1981 thus worked out to 35.5 per cent. This compared favourably with the share of 33.3 per cent as at the end of September 1980. — *Economic Survey 1981-82*.

EASIER CREDIT FOR COMING SLACK SEASON

AGAINST the background of the prevailing tight liquidity position of banks and their responsibility to support increases in production and productivity, as well as the priority sectors, the RBI Governor has indicated the following modifications in the credit policy on April 8, 1982:

Cash Reserve Ratio: The Cash Reserve Ratio will be reduced from 7.75 per cent to 7.25 per cent with effect from April 9, 1982. The CRR in respect of non-resident external rupee accounts will be reduced from 7.75 per cent to 3 per cent with effect from April 9, 1982. The Statutory Liquidity Ratio will continue unchanged at 35 per cent.

Reserve Bank's Food Refinance: While the base for refinance of food credit will continue unchanged at Rs. 2,200 crores, the extent of refinance will be raised from 30 per cent to 50 per sent beyond Rs. 2,200 crores. This liberalisation is specifically for the ensuing *rabi* procurement; the facility will be reviewed again before the *kharif* procurement; Refinance beyond Rs. 2,800 crores will be 100 per cent during the ensuing *rabi* season.

Export Refinance: In view of the importance of the export sector and with a view to enabling the banks to provide adequate credit to the sector, it has been decided not to change the base for export refinance. In other words, export refinance will continue to be based on the increase in export credit over the monthly average of 1979; the proportion of refinance will also remain unchanged at 50 per cent.

Discretionary Refinance: In recent months, banks have been granted sizeable discretionary and stand by refinance of a little over Rs. 200 crores to facilitate the flow of adequate credit to seasonal industries and other vital sectors. In view of the relaxations now made in cash reserve requirements, the banks should undertake a phased repayment of outstanding discretionary and stand by refinance by the end of June 1982. Discretionary refinance will be provided to banks beyond June 1982 only on a selective basis.

The additional interest charge on refinance of 3 per cent is not being levied in cases of shortfalls in reserve requirements during the period January 1 — April 30, 1982. This concession is now extended upto the end of June 1982.

Effective April 1, 1982, the interest paid by the Reserve Bank on the cash reserves maintained by banks, above the statutory minimum of 3 per cent, inclusive of the additional cash balance maintained under the 10 per cent incremental cash reserve ratio, will be rasied from 7 per cent to 8 per cent. The RBI Governor told the bankers that the Reserve Bank is also considering grant of some specific reliefs in respect of credit extended by banks to the textile industry.

The Governor emphasised the need for a more careful management of resources by the banks in the next three months to meet the demand for credit for food and other essential purposes. At the same time, he cautioned the banks against undue reliance on short-term funds for expanding credit. He also underlined the importance of the banks keeping their borrowings from the Reserve Bank to the minimum.

Indian Banking in Historical Perspective

27 APR 1982

By K. CHANDRASEKHAR *

THE Indian Banking system has grown considerably in stature in recent years, on geographical as well as functional basis. The increasing monetisation of the economy with the spread of the banking habit in new areas and the anxiety of the central and state governments to extend cheaper organised credit to the weaker sections of the society, have made it possible to use the facilities at the disposal of scheduled commercial banks to meet short-term credit requirements on a scale larger than ever before.

Organised commercial banking began in India only with the reconstitution of the three presidency banks — the Presidency Bank of Bengal (1809), Bombay (1840), and Madras (1843) under the Presidency Banks' Act of 1876. These banks were earlier set up as quasi–government institutions. They were incorporated under charter from the local government, which contributed a part of their share capital; government directors were appointed on the Boards of these banks. The initiative for setting up the presidency banks came from the Government. The banks were entrusted with the cash balances of the Government, free of interest, at the presidency towns and at places where the banks had branches, and were also charged with the management of public debt.

By the Presidency Banks Act, the Government concluded new agreements with these banks under which the Government agreed to maintain certain minimum balances with the banks and to pay interest on the short-fall, if any. Reserve Treasuries were established at presidency towns for keeping funds not required for any immediate purpose. The Government also disposed of their holdings of shares of these banks which thus became private institutions in 1876.

As bankers to the Government, the Presidency Banks had worked in close co-operation during the First World War (1914-18) and they realised that it would be in their own interest as well as that of the country if they were to amalgamate. They also feared that, if they did not amalgamate, powerful banking interests abroad might secure control over Indian banking. The banks, therefore, came together and took initiative to get the Imperial Bank of India Bill passed by the Indian Legislative Council in September 1920. The amalgamation of the three Presidency Banks, thereby establishing the Imperial Bank of India Ltd., came into effect in January 1921.

The Imperial Bank was primarily a commercial bank, transacting all the business formerly carried out by the Presidency banks; however, it was also entrusted with certain central banking functions. The bank was the sole banker to the Government; all treasury balances were kept with the Imperial Bank. The Bank also managed the public debt of the Government of India and to an extent, also acted as banker to other commercial banks. The bank conducted clearing houses in the country and provided remittance facilities to banks and the public.

The Imperial Bank was not a central bank. However, the government authorities felt the need for a central bank as centralised and organised banking system became essential for a money economy. In 1926, the Royal Commission on Indian Currency and Finance (the Hilton Young Commission) which was appointed to study the currency and finance situation in India and to make the necessary recommendations, recommended the establishment of a central bank. The Reserve Bank of India Act, giving effect to this recommendation, was passed by the Indian Legislative Assembly in March 1934 and the RBI was formed on April 1, 1935. The RBI was originally established as a private sector institution on the lines of leading foreign central banks of the time. The share capital of Rs. 5 crores was owned by private shareholders, but the RBI was controlled by the Government. The major functions of the Reserve Bank of India have been:

1. to regulate the issue of currency;
2. to act as banker to the central government and the state governments and
3. to act as the "bankers' bank".

The Bank of England, the Bank of France and several other European central banks were nationalised immediately after the World War II. Following these examples, the RBI was nationalised with the passage of the RBI (Transfer to Public Ownership) Act, 1948. From January 1, 1949 the RBI became a State-owned institution.

In 1954, the Committee of Direction on All-India Rural Credit Survey recommended the establishment of the State Bank of India as 'one strong, integrated, state-partnered commercial banking institution with an effective machinery of branches spread over the whole country for stimulating banking development by providing vastly extended remittance facilities for co-operative and other banks and by following a policy in effective consonance with national policies'. Consequently on July 1, 1955 the Imperial Bank was taken over by the Government and renamed as the State Bank of India. To further weld the design of the State Bank of India, seven State Banks were made the subsidiaries of the State Bank by the State Bank of India (Subsidiary Banks) Act 1959.

By 1960's, the Indian Banking system had made considerable progress, both functionally and in terms of geographical coverage. Nevertheless, there were still several semi-urban and urban areas which were not served by banks,

---

* Dr. Chandrasekhar is Faculty Member, Southern India Banks Staff Training College, Coimbatore-641009.

while banks had hardly penetrated into the rural interior. There were shortcomings also in the distribution of credit. Because of the traditional links between commercial banks on the one side and industrial and business houses on the other side, the Boards of Directors of banks consisted mainly of industrialists and businessmen. The result was that a good portion of bank credit went to the directors and concerns in which they were interested.

The bulk of the bank credit was given to large industries and big businesses while several sectors like agriculture, small scale industries and exports were not getting their due share. It was in these circumstances that the Government introduced social control over banks by the Banking Laws (Amendment) Act (1968) with the main objectives of achieving a wider spread of bank credit, preventing its misuse, directing its flow to priority sectors and making it a more effective instrument of economic development. The Boards of Directors of banks were constituted with a majority of non-industrialist directors, having specialised knowledge or experience in law, economics, co-operation, agriculture and rural economy, banking, finance, small-scale industry, etc. Professional bankers (no industrialists or businessmen) were appointed as wholetime chairmen. The RBI was empowered to appoint a director or observer on the Boards of the commercial banks. Foreign banks were made to constitute Advisory Boards in India and their accounts to be audited by Indian auditors.

Since the resources of the banking system were inadequate to meet all the credit requirements of the economy, there was need for a system of priorities and some form of budgeting to ensure that credit went to the desired sectors. For this purpose and for assessing credit priorities on a national basis and for ensuring equitable distribution of bank credit, the National Credit Council was set up with the Finance Minister as the Chairman and the Governor of the RBI as the Vice-Chairman and cousisting of representatives of industry, trade, agriculture, commercial banking, co-operative sector and professionals including economists.

The necessary organisational changes under the Social Control Scheme were made by the banks. They also reduced their loans to directors and large industrial and business concerns. Nevertheless, the Government felt that the social control experiment was basically inadequate to achieve the social goals. On July 19, 1969 the Government nationalised 14 major scheduled commercial banks each with a deposit of Rs. 50 crores or above. The main objectives sought to be achieved through the nationalisation of major banks have been the enlargement of resources for economic growth, the development of agriculture and industry in backward regions as well as making bank credit available to priority sectors which had been neglected in the past etc. To achieve these objectives, it was felt that the banks' policies on lending the funds should be controlled by the Government. The bank resources were since to be utilised for pro-

THE KERALA FINANCIAL CORPORATION

VELLAYAMBALAM, TRIVANDRUM

Pioneers in extending term loans to Small and Medium Scale industries in Kerala.

Provides financial assistance for setting up of Small and Medium Scale units and expansion or diversification of existing units.

☐ **Low rate of interest** ☐ **Long repayment period** ☐ **Initial repayment holiday for one to two years** ☐ **Easy repayment instalments**

Operates special schemes for technician entrepreneurs, entrepreneurs belonging to Scheduled Castes and Scheduled Tribes and for modernisation of selected small scale units.

Provides seed capital assistance to entrepreneurs who are unable to bring in the requisite promoter's contribution. Also operates scheme to provide assistance to transport industry.

For Details contact :

Head Office or the District Offices of the Corporation.

uctive purposes and for encourag- g new entrepreneurs.

The public sector banks, since tionalisation, have been control- ng around 85 per cent of the de- osits, advances and investments the Indian banking system. he following major trends in ommercial banking since nationa- sation of the 14 major banks are scernible:

1. Opening of new branch offices a large number of unbanked ural centres.
2. Sponsoring of rural banks;
3. Extending additional sizable redit to agriculture and other riority/neglected sectors;
4. Providing credit facilities to n increasing number of persons ith small means and
5. Granting financial support to ctors and activities encouraging onomic progress of the weaker nd neglected sectors, finance for rocurement and distribution of sential commodities, assistance landless labourers, help to rele- ed bonded labour, bridging the edit gap created as a result of oratorium on rural debts, credit cilities for minor irrigation and tter utilisation of ground water sources, assistance to handloom eavers and holders of national ad transport permits, and assi- ance for concessional supply of xt books and stationery to udents.

On April 15, 1980 the Govern- ent nationalised six more sche- led commercial banks each with deposit of Rs. 200 crores or ove. With this, the public ctor banks commanded more an 90 per cent of the aggregate posits, advances and invest- ents of the Indian banking stem.

During the period, June 30, 1969 end of June 1981, 27,444 new anch offices were opened and ore than half of these (15, 820 or per cent) were in rural areas. llowing the establishment of ese new branches, the national erage population per bank office s been reduced considerably m 65,000 in June 1969 to 19,000 June 1981 (Table 1 and 2). ring the period June 1969 to ne 1981, the total number of mmercial bank offices rose from 62 to 35,706. Special efforts continue to be made by banks to open more bank offices in the states where the population per bank office is above 25,000.

TABLE - 1
GROUP – WISE BRANCH EXPANSION OF BANKS

	Bank Group	June 30, 1969	June 30, 1981
1.	State Bank of India and seven subsidiaries	2,462	8,315
2.	Nationalised banks	4,133	19,611
3.	Private sector banks	1,667	4,182
4.	Regional rural banks	–	3,598
		8,262	35,706

Source : The Reserve Bank of India, Bombay ; *Report on Trend and Progress of Banking in India 1980-81, p. 60*

TABLE - 2
POPULATION GROUP–WISE DISTRIBUTION OF BANK OFFICES

Centre	June 30, 1969	June 30, 1981
Rural	1,832 (22.4)	17,652 (49.4)
Semi-urban	3,322 (40.1)	8,423 (23.6)
Urban	1,447 (17.5)	5,126 (14.4)
Metropolitan/Port Town	1,661 (20.0)	4,505 (12.6)
	8,262 (100.0)	35,706 (100.0)

Note : 1. Rural centres : Places with population upto 10,000. Semi-urban centres : places with population over 10,000 and upto 1,00,000. Urban centres : population over 1,00,000 and upto 10,00,000. Metropolitan centres : population over 10,00,000.

2. Figures in brackets relate to percentage share in total.

Source : The Reserve Bank of India, Bombay : *Report on Trend and Progress of Banking in India 1980-81, p. 62.*

Information regarding the spread of commercial bank offices according to population-groups are given in Table-2. The proportion of bank offices in rural areas to the total, which was 22.4 per cent at the end of June 1969 increased to 49.4 per cent at the end of June 1981. Evidently, the pace of expansion of network was more in rural centres compared to other areas. This was in response to the rural orientation policy introduced by the Reserve Bank of India. The RBI policy will continue to emphasise opening of offices in rural and semi-urban centres: special stress would be laid on the opening offices in unbanked pockets in the less accessible areas of different states. While selecting such centres for branch expansion, factors such as potential for mobilisation of deposits and grant of advances, availability of banking facilities nearby and other special features of the regions will also be taken into account.

Soon after the nationalisation of 14 major commercial banks in 1969, the Reserve Bank of India appointed a Committee of Bankers under the Chairmanship of Mr. F. K. F. Nariman to evolve a co-ordinated programme for ensuring the setting up of adequate banking facilities in the unbaned and underbanked areas of the country. This Committee, in its report, recommended that banks be allotted specified districts and they should be surveying the potential for development, in extending branch banking and in expanding credit facilities. The 'Lead Bank Scheme' reflecting these recommendations, was introduced in December 1969. The functions of a Lead Bank in the allotted district are as follows:

1. Surveying the resources and potential for banking development in its district;
2. Surveying the number of industrial, commercial and farm units that need financial assistance from the banking system;
3. Surveying the stocking and marketing facilities available for

TABLE - 3

SECTORAL DEPLOYMENT OF GROSS BANK CREDIT

(Rs. crores)

Sector	June 1969	March 1981 @
1. Public Food Procurement	233	1,759
i) Agriculture	188	3,573
ii) Small-Scale Industries	286	3,230
iii) Export Credit	258	1,650
iv) Other Priority Sectors	30	1,683
2. Total Priority Sectors	762	10,136
3. Credit to other sectors	2,605	12,894
4. Gross Bank Credit (1 + 2 + 3)	3,600	24,789

Source: The Reserve Bank of India, Bombay: *Report on Trend and Progress of Banking in India 1980-81, p. 27.*

@ Provisional.

both agriculture and industrial inputs and products;

4. Recruitment and training of staff for offering advice to small borrowers and farmers in the priority sectors;

5. Assisting other primary lending agencies; and

6. Maintaining contacts and liaison with government and quasi-government agencies.

The Lead Banks are also engaged in identifying the problems in implementation of the District Credit Plans and fixing the responsibilities for resolving the problems. The credit plan prepared for each district spells out the role to be played by the district authorities, as also by the banks, if implementation of the District Credit Plan has to be successful.

Simultaneously with the expansion of branch network especially in unbanked, rural areas, there has been a further significant diversifications of bank lending to priority/neglected sectors — agriculture, small-scale industries, transport operators, professionals/self-employed person, retail trade/small business and export. Bank credit to these sectors has gone up from Rs. 762 crores in June 1969 to Rs. 24,789 crores in March 1981. The advances to priority sectors constituted 21.2 per cent of the total (net) bank credit and this increased to almost 40 per cent. Table 3 campares the sectoral deployment of credit as at the end of March 1981 with that of at the end of June 1969. During this period, advances to agriculture increased from Rs. 188 crores to Rs. 3,573 crores, advances to small-scale industries went up from Rs. 286 crores to Rs. 3,230 crores, that to export sector increased from Rs. 258 crores to Rs. 1,650 crores.

Under the Village Adoption Scheme, banks select a village or a cluster of villages, formulate suitable programmes of financing of bankable proposals and extend need-based credit to all the viable or potentially viable farmers. This leads to integrated and harmonious development of the agricultural economy of that area and at the same time avoids the possibility of overlapping of efforts and resources in the same area by two or more commercial banks. But the adoption of villages by a bank shall only mean that it has declared its intention to do intensive lending in the area and this does not preclude other banks from financing in that area. It is for the bank adopting the village to take special interest in the development of the village in co-ordination with other lending agencies functioning in that area.

As at the end of June 1980, banks had adopted 1,01,725 villages and financed 3.08 million accounts involving an amount of Rs. 731 crores outstanding. Banks continue to adopt villages under this 'Village Adoption Scheme'.

The record of commercial banks in mobilising the savings of the community has been quite encouraging. During this period, June 1969 to June 1981, aggregate deposits of scheduled commercial banks rose from Rs. 4,646 crores to all-time record of Rs. 40,184 crores. The total bank credit during this period increased from Rs. 3,600 crores to Rs. 25,400 crores.

Commercial banks in India till the mid-sixties were mainly urban-oriented institutions and in terms of their activity, it was hardly better than money lending. The traditional role that a banking institution is supposed to play is that of acting as a repositary of community savings. Now they are the prime movers in the process of development based on social justice. Since the nationalisation of the major banks in 1969, commercial banks nave made a good deal of progress in advancing credit to priority sectors. The lending strategy adopted by the banks aims at ensuring that bank credit to agriculture and other sectors is purposive, productive and income-generating, thereby permitting the economic developmeut of the country.

HIGHER INTEREST ON P.O. DEPOSITS

Government of India has decided to increase the rates of interest on 1-year and 2-year time deposits in Post Offices made on or after April 1, 1982. The rate of interest on 1-year time deposits has been increased from 8½ per cent per annum to 9 per cent per annum. The rate of interest on 2-year time deposits has been increased from 9½ per cent per annum to 9¾ per cent per annum. The interest will be payable annually calculated half-yearly.

The maturity value of a 5-year Recurring Deposit Account of Rs. 10 denomination has been increased from Rs. 778.10 to Rs. 786.80 for accounts opened on or after April 1, 1982. Proportionate maturity values shall be payable in respect of accounts of other denominations.

Some Key Issues Related to Banking Growth

By P. C. MISRA *

THE growth of Indian banking in the post-nationalisation period has been without a parallel. The number of offices of commercial banks has increased from 9,007 in 1969 to about 34,000 at present, i.e., an average increase of around 6 branches per day during the last 10 years. Of these branches, 46.6 per cent are now in rural areas, 24.9 per cent in semi-urban areas, 15 per cent in urban and 13.5 per cent in metropolitan cities. Advances to the priority sectors increased both in absolute and percentage terms the latter from 15.1 per cent in 1969 to 31.7 per cent in 1980. The total priority sector advances stood at Rs. 8,000 crores at the end of June 1981. The average population served by commercial bank branches declined from 65,000 in 1969 to about 17,000 at the end of June 1980.

No doubt these achievements can be considered as significant. But the real measure of the contribution of the banks to economic development is the additional income and employment or potential for such increases generated by the new branches and the increased deployment of bank funds in the priority sectors.

The tremendous growth of banks in the post nationalisation period and the policy objectives set for them are largely the outcome of political expediency rather than a well-thought-out plan for banking and economic growth. This explains the failure of the authorities to maintain a healthy balance between the conflicting considerations of growth and profitability and to direct banking growth on healthy lines where commercial considerations of flexibility, efficiency and profitability are not sacrificed at the cost of social objectives.

The policies and programmes announced by the Reserve Bank of India from time to time provided that financing certain specified sectors should receive priority treatment from the banks. The priority sectors included are agriculture, small scale industries, small road and water transport overators, small business, self-employed persons, rural housing, education and so on. The banks are required to enlarge the flow of cridit to priority sectors to the extent of 33.5 per cent of their total abvances by March 1980 which has been raised to 40 per cent to be reached by March 1985. As a significant portion of the priority sector advances is known to be under default and is hardly recoverable, the ratio of priority sector credit to the total credit or its absolute level is a mis-leading indicator of the actual annual flow of credii to these sectors. In fact, the net annual flow of credit to the priority sector is likely to be much smaller than what is indicated by the outstanding credit level.

The disbursement of credit without proper assessment of the viability of the purpose, and the inadequate monitoring of the end-use may further aggregate rural poverty. In order to meet the targets, in many instances, understaffed rural branches of some banks are know to have disbursed credits for non-existent tube-wells, farm animals and so on. It is to be recognised that credit disburesement to the priority sector cannot proceed faster than the development of infra-structure and allied facilities.

The concept of 'equitable' commercial banking, wherein all the banks are required to proceed in the same direction, has compelled many banks to expand their business in the areas they know so little about, while limiting their conribution in those areas where they may have special capabilities. The reasons why some bank branches are prone to financing non-existent activities and customers and also the poor recovery record of priority sector advances are mainly the lack of expertise in handling such activities in these banks.

As all the banks are compelled to pursue uniform policies and strategies in allocating resources and also in respect of branch expansion, they have turned out to be competitive rather then complementary in their efforts. A good part of the senior managements' time and efforts is at present devoted to devising competitive schemes for frustrating the efforts of the other banks.

Further, it may be noted that rural branches of commercial banks have roughty 12 per cent share in total deposits of these banks, 9 per cent share in advances and employ 11 per cent of total manpower of these banks. It can, therefore, be assumed that roughly 11 per cent business done by the average nationalised bank is retail banking through its rural branches and the rest of the 89 per cent business done by it is both retail and wholesale banking through its metropolitan, urban and simi-urban branches. Purely retail banking through rural branches of the average nationalised banks in 1980 means doubling the operating cost of the traditional banking. In other words, had there been no extension of retail banking through rural branches by the nationalised banks in the seventies, the operating cost of the average nationalised bank might have further gone down.

Another disturbing aspect of our commercial banking scheme is the declining profitability of the banks. In the recent discussions on bank's profitability it has been often argued that profitability should be of no great concern to Indian banks as they are all public sector banks. The implication is that the loss, if any, incurred by the banks, would be automatically under-written by the exchequer. It is also presumed that the need for profit to augment the capital of the banks, is not necessary as the confidence of the public in Government-owned banks is unlikely to be undermined, whatever their capital ratios.

---

* Prof. P. C. Misra is Principal and Head of Department of Economics, D.S.M. Degree College, KANTH (Moradabad).

It may be accepted that maximisation of profits should not be the sole objective of public sector banks, but to argue that profits are irrelevant for the public sector banks is to miss an important point. Earning a reasonable level of profits is necessary for banks to provide a cushion to support its credit and interest rate risks. This assumes greater significance in Indian banks considering their low capital ratios. The average capital assets ratio (assets less contra-accounts) of the public sector banks in India declined steadily from 1.25 per cent in 1975 to 1.15 per cent in 1977 and further to 1.03 per cent in 1978. The corresponding ratios of banking institutions in other countries in 1977 were 5.99 per cent in U.S.A., 6.09 per cent in Switzerland, 4.58 per cent in West Germany and 2.06 per cent in France. The capital asset ratios of the world's largest 500 banks (listed in *Banker*, June 1980) for the year 1979 stood much above those of the six Indian banks included in the list.

The banks' profit data compiled by the Reserve Bank of India constitute a warning signal which calls for a close look at the working of the nationalised banks. The data show that the growth rate of profits of the nationalised banks lagged behind the growth rate of profits of all commercial banks in 1978, a year when the banking industry experienced a profit boom of major proportions. The profits of the fourteen nationalised banks increased from Rs. 15.29 crore in 1977 to Rs. 15.86 crore in 1978. For the scheduled commercial banking system as a whole, the profit rose from 30.65 crore in 1977 to Rs. 35.36 crore in 1978 or by 15.4 per cent against the decline of 23 per cent in 1977 over 1976. Profitability, measured as ratio of profit to working funds declined sharply from 0.22 per cent in 1975 to 0.13 per cent in 1979. Public sector banks' profits as a percentage of their working funds declined sharply from 0.15 per cent in 1975 to 0.10 per cent in 1977 and further to 0.09 per cent in 1978. Similarly, the ratio of profits to working funds of all commercial banks declined from 0.177 per cent in 1975 to 0.113 per cent in 1977 and further to 0.110 per cent in 1978.

A sizeable part of the resources of the banks are pre-empted in the form of compulsory cash reserves and investment in Government securities. At present 16 per cent of the incremental resources of the banks are kept as cash reserves with the RBI of which no return is earned by the banks on 3 per cent. On the remaining 13 per cent, earnings are as low as 6.5 per cent. In order to tone up the profits of the banks, the RBI could pay the banks a return of atleast 10 per cent. Banks now earn at the rate of five per cent, on an average, by lending money, while they pay at the rate of 14 per cent on borrowed funds, leaving a gap of nine per cent. Then there are operations and other costs which constituted another three per cent. A higher rate of return must be allowed on bank deposits held by the Reserve Bank in different forms.

The banking system seems to be in a para doxical situation. In the past, the banks found it difficult to cope with the requirements of credit from the economy with the normal growth in deposits. However, the scenario that emerges is a sharp contrast to the past trend. The banks would have more money than they can lend profitably. This situation of surplus funds at the disposal of the banking system without opportunity to invest them properly brings into sharp focus the futility of the credit policy for keeping inflation under the leash. In fact, the credit policy poses a threat to the profitability of the banks.

The performance of the banking system reveals an encouraging trend in deposit growth. In absolute terms, deposits recorded a growth of 5,612 crores during 1980-81. Taking an overall view, it would be reasonable to expect a deposit growth of not less than Rs. 7,000 crores during the year 1981-82. Of the aggregate deposit resources of Rs. 7,000 crore as much as 42 per cent will be immobilised (i.e. 7 per cent cash reserve ratio and 35 per cent statutory liqudity ratio) during the year. Such resources impounded will be Rs. 2,942 crores leaving a sum of Rs. 4,058 crore for the banking system.

According to the Sixth Plan, priority sector advances are expected to be doubled by the end of the last year of the plan, i.e., March 1985. For such doubling of priority sector credit, an additional increase in priority sector advances of atleast Rs. 1,500 crore is necessary. This leaves a balance of Rs. 2,000 crore for non-food non-priority sector advances. The net bank credit is diminishing year by year, more as a result of deliberate policy than for lack of demand. During 1979-80 and 1980-81, while deposits recorded growth of Rs. 4,743 crore and Rs. 5,612 crore, the credit expansion was Rs. 3,742 crore and Rs. 3,553 crore respectively. The credit deposit ratio is on the decline. The rate declined from 79.9 per cent in 1979-80 to 63.3 per cent during 1980-81 and further to an estimated 50.0 per cent in 1981-82. It need hardly be underscored that such a trend would erode into the profitability of the Banks seriously.

Industrial sickness is another area in which collective efforts must be made to cope with the problem. Why should a bank be forced to shoulder the entire responsibility for such a unit? It is pointed out that about Rs. 1102 crores have so far been sunk in sick units. There are about 20,700 sick units in the medium and small scale sectors and 395 large units with banks are financially involved. If an industry becomes sick, the industrialist concerned sometimes prospers. instead of punishing the industrialist, the society forces bank to embark on a rescue mission.

The question is how to extricate the banks from their increasing involvement in sick units. It is not easy to get out of it completely, but banks can atleast play a positive role in arresting the sickness. It is pointed out that the present definition of sickness allows default of payment for two years and one more year for watching the performance before the unit is put on the sick list. This three-year period could be reduced to three months if there is a proper system of monitoring. This will help the banks to take corrective steps in time.

The overtime bill is mounting alarmingly in the banks from year to year. Banks are annually paying about Rs. 32.50 crores as overtime wages. Twenty of the 28 public sector banks have shown a sudden spurt in overtime payment since 1978. The overtime payment in the State Bank of India rose from Rs. 279 lakhs in 1977 to Rs. 603 lakh the next year and stood at Rs. 475 lakh for the first half of this year (provisional) but in the bank of India it rose from Rs. 119.42 lakh in 1977 to Rs. 220.19 lakh in 1978 and was Rs. 160.29 lakh in the first half of 1981. The Vijaya Bank which was among the second batch of banks to be nationalised, shows a sudden spurt in overtime payment to Rs. 7.76 lakh in 1980 from Rs. 80,000 in 1979.

These figures are really alarming. It was only in during the emergency that overtime payment was under real control. Prior to the emergency, in 1974, Banks were paying overtime of Rs. 18.27 crore. During the emergency, the figure came down to Rs. 16.31 crore. In 1976, the figure further sharply came down to Rs. 6.87 crore, but in 1977, the figure started going up and reached a level of Rs. 10.56 crore. The figure has since gone up without any control and has exceeded the level of Rs. 30 crore.

If overtime payment is made according to rules in genuine cases and circumstances, perhaps the overtime bill would not be going up year after year as it is happening now. Where a shortage of staff arises temporarily due to availment of leave by some staff members and where there is heavy rush of clients on business prior to and after the holidays, there may be a necessity to incur overtime payment to clear off the heavy load or additional work. The other occasions justifying overtime payments are during the quarter-ends half year ends and year ends when statements and returns are required to be prepared. Though there is a justification for paying overtime in the above cases, it is felt that by proper planning in the distribution of work, overtime payment can be kept as low as possible.

But the overtime payment in the Banks is going up due to certain malpractices. There is a sweeping remark that after nationlisation productivity of employees has been rapidly deteriorating. It is also said that some managers buy peace by continuous allotment of overtime work. Sometimes, overtime is allowed to satisfy members of unions. It is heard that even for routine work, many branches pay overtime. Refusing to do extra work after finishing the originally allotted work, the tendency of the employees to resist the introduction of staggering of the hours of work, the tendency to do the normal work in overtime and reluctance to do the other person's work when one's work is over are a few instances which add to the overtime wage bill.

The need to control overtime payment in the Banks cannot be over emphasised. Recruitment by the service boards should be speeded up to give adequte staff to the branches having acute shortage of man-power. As far as possible, late business of customers should be stopped as otherwise such transactions will affect all sections in a branch, leading to overtime payment. Even the overtime payments to clear the arrears of work after a strike by the employees should be dicsouraged. Unions should take a lead to advise their members to put in solid work during office hours and not to undemine the profitability of the banks they serve.

A major casuality of the rapid branch expansion is customer service. The important criterion for judigng the efficiency of a bank is the quality of its servics to customers, i.e., the courtesy, speed and accuracy in its dealings with customers. It has been acknowledged by all concerned that customer service has deteriorated significantly in the recent years. The preoccupation of the senior managements of the Bank with branch expansion and the anxiety for fulfiling quantitative targets and the window dressing that goes with it hardly leaves any time for them to attend to the operational aspects of running bank. Besides, the overcrowding and the lack of even basic amenities in some of the branches have encouraged total indiference towards customers.

As reagrds services rendered by the banks, it may be stated without hesitation that there has been a serious deterioration after nationalisation in the area of their operation. Go slow tactics, strikes and other modes of indiscipline have become a matter of routine. The employees of the banks openly say that they get salary for attending the offices and overtime for doing the work. Such an attitude of callousness towards the banks customers is deplorable.

Now the pertinent question is: what are the precise functions the commercial banks can perform in the development of the country without affecting their financial viability?. In this context, it is necessary to keep in mind some of the fundamental aspects of the strategy for development. The Government has several agencies at its disposal banks have a vital role in mobilising the savings of the community and in deploying them for productive purposes, consistant with the finacial viability of the banks. The role of commercial banks in the development process, though crucial, can only be supplementary in nature. Commercial banks can ill afford to invest a growing proportion of their funds in any activity where the safety of the funds is in jeoparty or the real return is persistently below the total cost of the funds.

The process of economic development is complex and the task of transforming the rural economy is enormous only consistent, concerted efforts by all the developmental agencies with adequate financial support from budgetary resources can make an effective dent in rural development.

COMMITTEE FOR 20-POINT PROGRAMME

The Government of India has decided to set up a Committee for suggesting measures for implementation of the 20-Point Programme in so far as it relates to term lending institutions. The Committee consists of Messrs N. N. Pai (IDBI), B. B. Singh (IFCI), T. Tiwari (IRCI), S. S. Nadkarni (ICICI) and D. R. Mehta (Ministry of Finance). Mr. D. R. Mehta will act as Convenor of this Committee.

Ministry of Works & Housing
Department of Publications
Civil Lines, Delhi - 110 054

Sl. No.	*Title*		*Price (per copy)* Rs. Ps.
1.	Project Profiles on Reserved items Vol. 1 (193 schemes) (Print 1981) PDCSI. 63.1		40.00
2.	Project Profile on Reserved items Vol. II (Print 1981). PDCSI. 63. II		40.00
3.	Project Profile on Reserved items Vol. III (Print 1981) PDCSI. 63. III		40.00
4.	Machine Guide (Print 1980) DCSI. 60		50.00
5.	Laghu Udyyog Samachar	English	2.00 Annual subscription : 22.00
		Hindi	1.50 Annual subscription : 16.00
6.	Education Quarterly		6.00 Annual subscription : 24.00
7.	Directory of Testing Facilities in India	Volume I	12.00
		Volume II	12.00
		Volume III	12.00
		Volume IV	12.00

For your requirements of publications released by various Ministries/ Departments of the Government of India, the periodicals and Gazette of India (All parts), please contact any of our sales Depots/Counters or book your orders and address enquiries to the undersigned.

1. Kitab Mahal, Baba Kharak Singh, Marg, State Emporia Unit No. 21, New Delhi Tel. 243708.
2. Book Depot, 8, K.S. Roy Road, Calcutta. Tel: 233813.
3. Sale Counter, Udhyog Bhawan, Gate No. 13, New Delhi Tel. 372082.
4. Sale Counter, UPSC Dholpur House, New Delhi Tel. 383991.
5. Sale Counter, Department of Publications, Civil Lines, Delhi-110054 Tel. 227821-25, 227800.
6. Sale Counter, Central Revenue Building, New Delhi (Custom Gate).
7. Sale Counter, Delhi High Court, New Delhi (Room No. 264 C)

These publications can also be had from our authorised agents and sale and return agents (including State Governments) all over the country and abroad.

Address your enquiries to

Bachint Ram,
Asstt. Controller (Supply)

AMRIK SINGH
Controller of Publications

davp 81/307

Profitability and Productivity in Banks

By K. K. AMMANNAYA*

THE general complaint is that profitability of Banks has been declining constantly after nationalisation. The earnings of banks are on the one hand declining on account of deployment of funds in low yielding advances, viz., food procurement, priority sector advances and advanaes under DIR scheme, while on the other, the wage bill is increasing on account of increasing prices and the massive recruitment of additional staff by banks during the seventies to support their branch expansion plans. To add to this, banks, had to implement Third Bipartite Settlement and Pillai Committee Report as a result of which the establishment charges increased considerably. The estimated additional financial burden on account of the implementation of PCR alone was estimated to be over Rs. 3,186 lakhs. The net result was that profitability of banks was at a low ebb. During the eighties banks have to continue to play their role in the welfare of the community. Unless banks ensure that they do not impair their commercial character, it will be difficult for them to earn adequate profits and maintain required measure of operational efficiency.

It is argued in some quarters that profitability and social purpose cannot go together. But in spite of their role in financing priority sectors and contributing to the promotion of the welfare of the common man, banks are still profit seeking institution. They have to earn reasonable profits to make a contribution to the central exchequer. The Government will be assessing the operational efficiency of banks still by means of the yardstick of profitability. Hence, it is necessary for banks to maintain their profitability by judicious allocation of credit among various sectors and by striking a mean between profitability und social purpose. It is mentioned that priority sector advances are the cause for low profitability. But priority sector advances as such cannot and should not be a burden on profit earning of the banks. It is possible for banks to maintain profitability if they plan their activities so as to increase their earnings and at the same time eliminate all types of wastages.

Unless the banks maintain a commercial approach in their operations, it will be impossible to assess and see whether they are utilising their resources in the best possible manner. Optimal utilisation of resources, including human resources, is the only means to maintain operational efficiency and improve profitability and productivity.

Low productivity is definitely a reason for low profitability. The rate of growth of profits of scheduled commercial banks fell to 20 per cent in 1980 as against 21.7 per cent in 1979, according to a study made by R.B.I. The banks earned a profit of Rs. 52 crores during 1980 after providing for taxation and bonus to staff. In absolute terms, the banks maintained an increase of Rs. 9 crores in 1980 when compared to previous year but there had been a deceleration in the rate of growth of profits. The growth rate of profits of the State Bank group and 14 nationalised banks stood at 18.1 per cent and 23.6 per cent respectively during the year. This was higher than the rates of profits of 15.1 per cent respectively for the previous year.

The percentage of the rate of growth of profits of the remaining bank groups during 1980 was however, lower than in the earlier year. The rate of growth of six banks nationalised on April 15, 1980 was as low as 6.3 per cent in 1980 as against 16.7 per cent in the previous year. The total earnings of banks rose by Rs. 871 crores (plus 26.8 per cent) during 1980 as compared with an increase of Rs. 639 crores (plus 24.5 per cent) in the previous year. Reflecting partly the impact of an upward revision in the lending rates structure in September 1979, the interest and discount earned rose by Rs. 799 crores (plus 28 per cent) as against an increase of Rs. 578 crores (plus 25.4 per cent) in the previous year. The increase in expenditure during 1980 of Rs. 829 crores (plus 26.9 per cent) was larger than that in the previous year of Rs. 631 crores (plus 24.5 per cent). The rise of Rs. 612 crores (plus 29.9 per cent) in interest paid on deposits, borrowings and the like during 1980 was higher than that of Rs. 417 crores in 1979. The larger outgo under this head was partly attributed to the hike in interest rates of deposits in 1979. The establishment expenses rose by Rs. 170 crores (plus 20.5 per cent) as against Rs. 162 crores (plus 24.3 per cent) in the previous year.

The wage bill may be cited as one of the reasons for the declining profitability and increasing establishment expenses. Banking industry is a labour intensive industry. The wage bill in the banking industry is a major component of the total cost structure. The increase in the dearness allowance on account of the increase in prices and massive recruitment of additional staff are the major reasons for the considerable increase in the wage bill. Staff strength in banks increased considerably. Additional staft recruitment was not based on any proper assessment of staff requirements. The accent should have been on optimum staffing in banks. But banks recruited additional staff without any regard to the needs as assessed in the light of the principle of optimum staffing. The number of hands recruited by banks in recent years is more than the proportional increase in their business. The implementation of Bipartite Settlement and PCR also led to increase in establishment expenses.

---

* Mr. Ammannaya is deputy Personnel Manager, Syndicate Bank, Manipal-576119.

As a result of the increase in staff strength, productivity of employees deteriorated. Productivity can be defined as the output per unit of a factor of production in a given period. Productivity index thus tells us something about the relationship between inputs and outputs in an enterprise. In a banking institution staff members constitute the most important input. Because of this fact, the concern for improving productivity has to be focussed on staff productivity alone. Several approaches are available for measuring productivity. The deposits mobilised, credit extended and money remitted are the three major outputs in banking institutions. Banks use these outputs to arrive at global indices of productivity such as per employee deposits, per employee advances, per employee profit, per employee remittances, and so on.

The Bank of India, which had per branch deposits of Rs. 2.34 crores in 1969, was the first in per branch deposits in 1969. The bank had per branch deposits of Rs. 1.65 crores in 1978 which was the highest among the nationalised banks. The Bank of Baroda had second place in per branch deposits in 1969 with per branch deposits of Rs. 0.83 crores which rose to Rs. 1.44 crores in 1978. Bank of India had first place in per branch advances in 1969 with per branch advances of Rs. 0.91 crores which rose to Rs. 1.01 crores in 1978 and the Bank maintained the position. Bank of Baroda had second place in per branch advances also. Bank of Baroda had per employee deposits of Rs. 8.26 lakhs in 1979 and Rs. 10.02 lakhs in 1980. The Punjab National Bank which had per employee deposits of Rs. 7.96 lakhs in 1979 improved it to Rs. 9.15 lakhs in 1980.

The per employee deposits were the highest in Bank of India in 1969 with Rs. 3.96 lakhs which rose to Rs. 7.25 lakhs in 1978. But Bank of Baroda had highest per employee deposits in 1978 with Rs. 7.23 lakhs. Punjab National Bank with per employee deposits of Rs. 3.12 lakhs stood second in 1969 whereas in 1978 regarding per employee deposits Bank of India had the second place. The figures of the per employee deposits and advances for all nationalised Banks were Rs. 2.86 lakhs and Rs. 1.90 lakhs in 1969 respectively and they rose to Rs. 6.07 lakhs and Rs. 3.75 lakhs repectively in 1978.

Out of 14 banks the per employee deposits of 7 banks were less than the average for nationalised banks in 1978. Similarly in respect of credit also there were 8 banks with per employee advances of less than the average for the nationalised banks. Bank of India had the highest per branch employees in 1978 i. e., 23 employees which was less than the figure of 1969 which was 34. Central Bank of India occupied the second place. Per branch accounts, per employee accounts, etc., will also serve as useful indices of productivity.

Deposits per rupee of establishment cost and credit per rupee of establishment cost are also very useful indices for measuring productivity. In 1979, Bank of Maharashtra, Allahabad Bank, Dena Bank, Union Bank of India, Syndicate Bank, Canara Bank and Punjab National Bank had per employee deposits less than the average of nationalised banks. All the banks having per employee deposits and per employee advances less than the national average should put in concerted and constant efforts to raise the productivity upto the level obtaining in banking indurtry. There should be a target date for this and definite results should be achieved from time to time in this regard as per a time bound programme. Only thus we can improve the productivity level of the banking industury as a whole.

There is no ceiling upto which productivity has to be improved. Since productivity in Banks is very low, we should put in very serious efforts at improving productivity. Improvement in productivity should constitute an important parameter in the performance budgets of banks. Since establishment costs are increasing to counter this banks have to improve employee productivity.

Profitability can be improved only by improving productivity. It is very clear that there is great scope for increasing productivity. Determinants of productivity include physical conditions of work such as lighting, ventilation, facilities for resting, etc., social conditions of work, such as personnel policies and practices, communications, interpersonal system, a managerial philosophy and styles, extent of humanisation in the organisation, etc., and individual needs such as physical, social, egoistic and self-actualisation needs and perceived possibility of needs fulfilment. Employee productivity can be improved only by winning the commitment of employees. Better work organisation, effective supervision and proper work distribution will no doubt help to achieve some improvement in productivity. But enduring results can be obtained only by motivating employees and by ensuring their participation in the Bank's functions.

"Productivity and Profitability" should be perennial corporate objectives. This should continue to be the most important objectives in all the years. Banks may adopt this as the perennial corporate objectives. Profitability can be improved by minimising controllable expenses fixing optimum staffing patterns, on the basis of assessment of staff needs and judicious allocation of credit among various sectors. All these will be taken care of if there is systematic and comprehensive performance budgeting. There should be such a linkage between inputs and outputs that banks should be in a position to know well in advance what results they are going to achieve in a budgetary year and at what cost.

Banks should have well thought out and well planned recruitment programmes and they should try to readjust existing labour force to achieve balanced distribution. Banks have to do a lot in the matter of identifying surplus staff and redeploying them in deficit of branches. In respect of Administrative Offices such as Zonal Offices, Divisional Offices and the Foreign Exchange Division also, there should be a proper system of assessing staff requirements. It is possible to assess and quantify the work load in these offices and the staff requirements can be assessed based on such work load. Banks should take steps to develop such a system.

Immediate steps should be taken by banks for improving productivity, operational efficiency and profitability. There should be a rational system of pricing various services such as issuing drafts, MTs, TTs, etc., so that banks may earn adequate return for the service rendered. Appropriate fiscal concessions should also be given to banks to enable them to transfer larger amounts to reserves and thus strengthen their base. Banks should have adequate data base for knowing the state of affairs eat each branch so that appropriate corrective measures can be taken promptly. There should be budgeting not only for performance regarding outputs but also for inputs and expenses as indicated earlier. There should be a participation model to motivate staff at various levels especially clerks though such steps as self-supervision, accountability and responsibility. It is established that participation induces motivation. Sharing of all vital information, such as data regarding progress achieved by the Bank from time to time, and also by the Regions is necessary to achieve motivation. Sharing of information regarding the performance of various regions and zones and branches would kindle a sense of belonging in the employees. Better deployment of staff resources, linking of performance budgeting on the part of branches in various areas, minimising overtime payments and other controllable expenses and bringing about suitable attitudinal changes in the staff members will help improve productivity.

The following suggestions can be considered for the purpose of improving productivity in the banking industry :

(1) There should be proper financial budgeting in respect of all the offices. This will help control expenses and increase profits. Also, there should be plans for performing tasks in respect of administrative offices and departments in the Head Office as well as in all banks.

(2) There should be periodical meetings of staff members at various branches and offices, so as to get their commitment and cooperation in the matter of implementation of accepted policies and programmes.

(3) There should be assessment of staff strength not only in respect of branches, but also in respect of administrative offices particularly Zonal Offices and Regional Offices. There should be a system of maintaining work load information at these offices thereby providing the required data base for the assessment. The objective assessments made in this regard should be accepted by the concerned offices. This will help eliminate the possibilities of over-staffing. Overstaffing has demoralising effects, through removing challenge in work for staff.

(4) Productivity and profitability should be perennial corporate objectives of banks. Circulars may be issued from time to time emphasising the need to increase the productivity at various levels and also spelling out the ways in which the same can be done. There may also be a system of declaring the surplus staff by various branches and offices voluntarily. All the branches must be given only optimum staff strength. Branches having surplus staff may declare the surplus on their own. Such surplus may be redeployed elsewhere.

(5) There should be a comprehensive scheme for recognising the good efforts made by the employees at various levels. The contributions of officers and staff should be suitably recorded and recognised and the feed-back in this regard should be given to them so as to motivate and enthuse them. The system of performance appraisal should be made more objective. The persons who are undertaking the appraisal of the subordinate officers should be given detailed norms, so as to ensure objectivity.

(6) There should be expenditure planning and profit planning as a part of performance budgeting exercise. All controllable expenses can be eliminated or reduced. Overtime payments can also be reduced by proper planning of work, improved work distribution, proper discipline and effective supervision. The staffing pattern ratio should also be changed so as to provide adequate span of control for each officer and to develop the officers by giving a challenge in work.

(7) Disguised unemployment, if any, in certain areas must be eliminated in all banks. Banks have to take steps to correct the maldistribution of labour force. Areas and regions having more business alone can be given more staff. Areas having less business and poor potential should not have surplus hands. Such surplus hands can be shifted to areas offering greater scope and potential for development. Banks should adopt this strategy to improve productivity optimum utilisation of work force is the pressing need of the day to improve productivity and profitability.

(8) Each bank should have a target to improve productivity. Such targets should come from grass roots level as a part of performance budgeting exercise.

Thus it is clear that banks have to take energetic steps for improving productivity and profitability. Improvement in productivity is an indispensable basis for improving the overall performance of commercial banks in all areas or spheres. If banks are to grow on sound and healthy lines, simultaneously contributing to the growth of the employees within and the national economy of which they are a part, they have to adopt appropriate strategies and plans for improving productivity. All such plans and strategies for improving productivity should be built into the system of performance budgeting in banks. Thus, comprehensive planning in respect of all areas and *parameters including productivity and profitability from the grass root level of branches with the participation of all employees at all levels will be vital from the point of view of improving the performance of commercial banks.*

NOTE TO SUBSCRIBERS

Requests for missing issues should be sent within one month of the date of publication. Those sent after long delay are likely to be ignored.

REPAYMENT OF COMPULSORY DEPOSIT

INCOME-TAX PAYERS

Have you made any deposit under the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974 during the financial years 1975-76, 1976-77, 1977-78, 1978-79 or 1979-80.

IF SO

You are entitled to repayment of the amount deposited with interest in five equal annual instalments, commencing from the expiry of two years from the end of the financial year in which the deposit was made.

THUS

DEPOSIT MADE DURING	REPAYMENT IN FIVE EQUAL INSTALMENTS WITH INTEREST ON
1–4–1975 to 31–3–1976	1–4–1978, 1–4–1979, 1–4–1980, 1–4–1981, 1–4–1982
1–4–1976 to 31–3–1977	1–4–1979, 1–4–1980, 1–4–1981, 1–4–1982, 1–4–1983
1–4–1977 to 31–3–1978	1–4–1980, 1–4–1981, 1–4–1982, 1–4–1983, 1–4–1984
1–4–1978 to 31–3–1979	1–4–1981, 1–4–1982, 1–4–1983, 1–4–1984, 1–4–1985
1–4–1979 to 31–3–1980	1–4–1982, 1–4–1983, 1–4–1984, 1–4–1985, 1–4–1986

HOW TO OBTAIN REPAYMENT?

Apply in Form E to your Bank alongwith your pass book. Form E will be available with your Bank.

HURRY

Claim the repayment already due on 1-4-1978, 1-4-1979, 1-4-1980 & 1-4-1981.

ALSO DO NOT FORGET

To claim repayments in respect of the subsequent instalments falling due for repayment on 1-4-1982, 1-4-1983 and 1-4-1984 etc.

REMEMBER

From 1st April, 1981 the depositors will have the option not to withdraw the instalment amounts and interest thereon on their becoming due. In that event, the amount not withdrawn shall earn interest, so long as it remains in deposit, as if it were a compulsory deposit and the provisions of the Compulsory Deposit Scheme (Income-tax Payers) Act, 1974 will continue to apply in relation to such amount or interest thereon. The depositor is not required to file any option for this purpose.

DIRECTOR OF INSPECTION
(Research, Statistics & Public Relations)
INCOME-TAX DEPARTMENT
NEW DELHI - 110 001.

davp 81/381

Growth Profile of Public Sector Banks during First Decade of Nationalisation

By B. KUMAR*

THE decade of the seventies constitutes a watershed in the annals of Indian banking. On the eve of independence, Indian banking was characterised by slow growth and predominance of unorganised money market. But the strides taken by it during the seventies have outdistanced the progress of the banks since their very inception. The banking sector has been brought within the ambit of public sector in a phased manner. The process of nationalisation was initiated in 1948 when the Reserve Bank of India, the country's central bank, was nationalised. In 1955, the country's largest commercial bank—Imperial Bank of India—was nationalised and transformed into the State Bank of India. The process was renewed after a lapse of 14 years when in July, 1969, the country's 14 major commercial banks were nationalised. In 1980, six private sector banks were again brought under the umbrella of the public sector. The process is yet to be completed fully. Along with banks, the insurance business—life in 1956 and general in 1971—has also been brought within the ambit of the public sector. A number of term-lending institutions have been set up in the public sector to meet the need for long-term industrial finance.

The nationalisation of commercial banks has opened a new dimension to commercial banking in the country. The banks have been transformed into an effective instrument of change for realising the country's social and economic goals. The most striking feature of the commercial banking during the post-nationalisation era is the retention of its non monolithic character. So far the Government has resisted the temptation—and suggestions of various bodies—for a restructuring of the banking sector. A sense of healthy competition previals among the banks, facilitating their growth and introduction of innovations.

The present study is directed at evaluating the growth profiles of individual public sector banks. The theme is broadly discussed under "expansion of branches"; "deposit mobilisation"; "deployment of credit"; "financial operations", and so on.

I

During 1969-79, the expansion of branches has taken place at a fast rate. In 1969, there were 8,262 branches of commercial banks. In percentage terms, 22.4 per cent were in rural, 40.1 per cent in semi-urban, 17.5 per cent in urban and 20 per cent in metropolitan areas. Branch expansion of commercial banks, particularly in the rural areas, constitutes the main plank of the branch expansion policy since nationalisation. In 1978, a new branch expansion policy covering the period 1979-81 was formulated. "The focus of the policy was on the expansion of banking facilities in deficit areas i. e. areas with population per bank office higher than the national average of 20,000 as at the end of June 1978 and the reduction of inter district disparities in this regard. The number of bank branches in June 1981 had increased to 35,706 of which rural branches accounted for 49.9 per cent, semi-urban bank 23.6 per cent, urban branches 14.4 per cent and metropolitan branches 12.6 per cent.

The improvement in coverage of population by the banking services is reflected in the fact that in 1969, there was one branch for a population of 60,000. In 1981, there was one branch for population of 19,000. However the lowest and the highest varies between 4,000 (Goa), to 158,000 (Sikkim). So far as the performance of individual public sector banks in the field of branch expansion is concerned, the State Bank of Indta group accounted for 38 per cent of the total branches in 1969 while in 1979, its share stood at 30 per cent of the total branches. Among other banks, the Central Bank had the largest number of branches (1460) while Bank of Maharastra had the lowest number(653). Among the subsidiaries of SBI, and the six other banks nationalised in 1980, the State Banks of Indore, and Saurastra Bank, Corpration Bank and the Oriental Bank had less than 300 branches. The State Banks of Bikaner, Travancore, Hydrabad and Mysore had more branches than some of the six banks nationalised in 1980.

In terms of the growth rate of branch expansion, the Allahabad Bank recorded the highest growth rate of 418 per cent during 1969-79. The lowest rate was recorded by the Punjab National Bank, i. e. 150 per cent. Taking the all-India average of 225 per cent as the measuring yard, five banks, namely, the Central Bank, Punjab National Bank, U.C.O. Bank, Syndicate Bank and Dena Bank recorded lower growth rates than the all-India average.

In the expansion of branches in rural areas, the Allahabad Bank again tops the list with 2,600 per cent increase—from mere 15 branches to 405—while Syndicate Bank, with 295 per cent increasc, recorded the lowest growth rate. Assuming 600 per cent increase as the all-India average, seven banks, namely, Bank of Baroda, Central Bank, Punjab National Bank, Canara Bank, Syndicate Bank, Indian Overseas Bank and Dena Bank recorded lower growth rates than all-India average.

The performance of lead banks in the expansion of branches in the allotted districts also reveal wide range of variations. The SBI had been allotted 111 districts under the Lead Bank scheme. Out of its 4,943 branches in 1979, 1,269 branches were in the lead districts and 3,674 in other districts. The rest of the banks share between them 287 districts. Out of their total 11,298 branches, they had 4,061 branches in the lead districts and

---

* Lecturer, RSP College, Jharia (Bihar).

7,237 out side lead districts. However, the rationale behind allotment of lead districts to the different banks is not clear. The largest districts, i. e. 46, have been allotted to the Central Bank while the Indian Overseas Bank have only 7 districts. Among the six banks nationalised in 1980, the Punjab & sind Bank had only one lead district.

II

During the last three decades, thare has been a phenomenal rise in the deposit mobilisation of the banks. The total volume of deposits has increased from Rs. 881 crores in 1950-51 to Rs. 4,338 crores in 1968-69. In 1980-81 (June), the deposits with the banks, stood at Rs. 40,184 crores. The annual rate ofdeposit increase during 1950-51 to 1965-66 was 8.4 per cent. Between 1965-66 and 1980-81, it rose to 18.4 per cent while the average for the three decades was 13.3 per cent.

A study of bank-wise growth rate of deposits reveal that the Indian Overseas Bank recorded the highest growth rate of 29 per cent during 1979 among the 14 nationalised banks. In private sector, Punjab & sind Bank (nationalised in 1980) recorded a growth of 37 per cent. The Canara Bank had the lowest rate of 15.5 per cent among the 14 major banks. Taking 18 per cent the average growth rate of 18 per cent as the measuring rod only Canara Bank and Central Bank recorded the deposit growth rates which were below the all-India level. In quantitative terms, SBI had the largest deposits of Rs. 8,558 crores, followed by Bank of Baroda with Rs. 2,432 crores. Among the 14 major banks the Indian Bank had the lowest deposit of Rs. 980 crores. Among the subsidiaries of SBI the Bank of Indore had the lowest deposit of Rs. 126 crores. Among the 6 other than private scetor banks, Oriental Bank of Commerce with Rs. 170 crores had the lowest deposit. In 1969, Punjab & Sind Bank had the lowest deposit of Rs. 8 crores.

The average ratio between time and demand deposit in 1978-79 was 7:20. The composition of deposits of different banks reveal wide variations in the ratio of time and demand deposits. The ratio was higher in the case of Allahabad Bank (31:56), Bank of Baroda (107:195), Bank of India (39:66), Bank of Maharastra(28:53), Central Bank (1:2), Indian Overseas (54:87), SBI (1:2) and Syndicate Bank(64:107).

III

Flow of credit, particularly to the pritoriy and strategic sectors, was a high light of the post-nationalssation era. Bank credit has been used as a powerful lever for regulating the growth of the economy in the desired directions since the inception of planning era. The volume of bank credit during last three decades has increased from Rs. 547 crores in 1950-51 to Rs. 25,270 crores in 1980-81 (June-end). The average annual growth ratc of bank credit during 1950-81 was 13.5 per cent while during 1965-81, it rose to 17.3 per cent, compared to 10 per cent during 1950-65.

The performance of different public sector banks in credit deployment can be judged from the standpoints of the flow of crdit to the priority sector, growth rate, deposit-credit ratio, composition of bank credit and progress of DRI scheme. The anaiysis of the data pertaining to bank credit reveals a wide variation in the working of different banks.

1. In absolute terms, SBI's credit amounting to Rs. 5,726 crores is the highest. Bank of India had the second highest with Rs. 1,481 crores followed by Bank of Barcda with Rs. 1,429 crores as the third highest. Only Canara Bank (Rs.1,021 crores) Central Bank (Rs, 1,386 crores) and Panjab National Bank (Rs. 1,228 crores) could exceed the Rs. 1,000-crore mark. Among the 14 major banks, Allahabad Bank had Rs.407 crores advances came lowest. Bank of Indore had the lowest credit of Rs. 90 crores among the six banks, nationalised in 1980.

2. Assuming 17 per cent growth rate as the measuring rod, the performance of Bank of Maharastra, Dena Bank, Union Bank, United Commercial, SBI and New Bank of India in 1979 was below the all-India average. Indian Overseas Bank recorded the highest rate of 31 per cent followed closely by the Central Bank with 27 per cent.

3. The all India credit-deposit ratio in 1978-79 was 69 per cent as compared to 79.3 per cent, during 1970-71. The advances-deposit ratio in 1979 was 61.5 per cent. Assuming this as the standard, the performance of the Bank of Baroda, Central Bank, Panjab National Bank, United Bank, Union Bank, Dena Bank, Allahabad Bank, New Bank of India, Vijaya Bnak, Oriental, and Corporation banks were below all-India average. Canara Bank, with 65 per cent, recorded the highest ratio.

4. The flow of funds to prirority sector recorded sharp acceleration during the decade under review. Under credit planning, the banks constantly endeavoured to serve the interest of priority sector by earmarking the investible funds for this sector. During 1979, the percentage of credit flow to the priority sector had increased to 29.3 per cent from 14 per cent in 1969. If this is adopted as the average level for comparison, the performance of all the banks are above the mark.

IV

An analysis of the profit and loss accounts of the different banks reveals divergent trends. The per cent of net profit to the total income varies from 2.5 per cent to 0.7 per cent. The 50 commercial banks earned a total profit (retained) of Rs. 42.9 crores comprising of Rs. 10 crores of SBI, Rs. 1.1 crore of subsidiaries of the SBI, Rs. 37 crores of the other nationalised banks and Rs.2.2 crores of private banks. According to the available data, SBI earned a net profit of Rs. 8.3 crores and declared 23 per cent dividend in 1978. The other banks earning profit exceeding Rs. one crore were : Bank of Baroda Rs. 1.67 crores, Bank of India Rs. 1.80 crores, Canara Bank Rs. 3.20 crores, Indian Overseas Bank Ra. 2.66 crores, and Punjab National Bank Rs. 1.52 crores.

The above study depicts steady growth of the banks during the first decade of nationalisation. The study reveals that in quantitative terms, the strides of Indian banks during the last decade are quite impressive, save some marginal drawbacks here and there The qualitative functiontng needs greater planning. The consumers servicing needs better management and attention. But it must be underlined that the qualitative aspect of the banks functioning is affected by the political, economic and trade union climate in the country.

Recent Trends in Commercial Banking

By A. K. SINHA *

AN attempt is made in this article to review critically the trends in the extension of banking facilities by banks since nationalisation. In Part I, we shall analyse the spread of offices by different bank groups in various States and categories of centres. Part II is devoted to a discussion of the role of new offices in mobilising resources and extending credit facilities, particularly in rural areas. In Part III, the significance of the factual data given in Part I and II and an assessment of the banks' endeavour in correcting the regional imbalances have been presented.

I

In the pre-nationalisation period, banks were largely concentrated in urban and in prosperous commercial belts. As a result, other parts of the country were completely out of the circuit of banking facilities. The orthodox banking set up gave rise to a big gulf of geographical imbalances as well as regional disparities. The nationalisation of the 14 major Indian scheduled commercial banks in July 19, 1969 imparted an unprecedented impetus to commercial bank branch expansion. During the period July 19, 1969 to June 30, 1980, the total number of commercial bank offices increased by 24,135 from 8,284 to 32,419. As a result, the average population served by each branch has come down from 65,000 in June 1969 to 17,000 in June 30, 1980. Furthermore, rural branches of commercial banks have risen in the same period from 1,832 to 15,101 and their proportion has gone up from 22.4 per cent to 46.6 per cent in June 1980. Correspondingly, the proportion of branches in urban and metropolitan areas has declined, though in absolute numbers they have also grown very significantly.

The pace of branch expansion of commercial banks was well maintained during the year ended June 1980, with continued emphasis on the provision of banking facilities in the deficit areas so as to bring about an appreciable reduction of inter-state and inter-district disparities. Out of the 2,224 new offices opened during the year, the State Bank and its subsidiaries opened 354 offices, 20 nationalised banks 948 offices, private sector banks 209 offices, and the Regional Rural Banks 713 offices. Of these 2,224 offices, 1,735 offices were opened in unbanked centres, i.e., 78 per cent of the total new offices were opened in such areas.

Keeping in view the objective of the new policy of bringing about an appreciable reduction in the inter-state, inter-district disparities in the spread of banking facilities, the relatively underbanked states like Uttar Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and West Bengal continued to receive special attention, As a result, there is at present no block head quarters which is devoid of a commercial bank office. Even so, there are large parts of the country where banking facilities are still very inadequate. Of the nearly 6 lakh villages in the country, only a fraction can now claim to have banks. At the end of June 1980, for all of these villages, there were only a little over 12,000 branches.

Moreover, there exists wide disparities between one region and another. There are over 10 states in which the average population per bank office is much higher than the national average. Population coverage per bank office was, in the middle of 1980, as high as 28,000 in Mizoram, 30,000 in Bihar, 31,000 in Assam, 27,000 in Orissa, 24,000 in Uttar Pradesh, 31,000 in Manipur and 22,000 in West Bengal. And if one were to exclude the branches in the metropolitan areas and big cities, the ratio would be much higher. This is true not only in the so-called under-banked States, but of others as well. There is, in every state a clustering of bank offices in the big cities. It is to take care of this that the Reserve Bank's branch licencing policy has all along stressed the requirement of opening by banks of several branches in rural and semi-urban areas before obtaining a licence for a metropolitan or urban centre. Without such specific direction, it would be virtually impossible to reduce regional imbalances in banking facilities.

In view of this, the branch licensing policy formulated in September 1978 for the three years 1979-81 envisaged the opening of 6,500 additional offices in rural and semi-urban areas of the deficit districts (viz., districts where the average population per office was higher than the national average of 20,000 as on June 30, 1978). In accordance with the guidelines laid down in the branch licensing policy, detailed programmes of branch expansion on a district-by-district basis for each State/Union Territory were drawn up by the Reserve Bank of India. Till the end of June 1980, the Reserve Bank of India issued authorisations to banks for opening 6,121 offices in rural and semi-urban areas while the branch licencing policy permits expansion in urban/metropolitan areas on a highly selective basis. The Bank granted permission for opening only 388 offices in such areas during June, 1980.

II

Nevertheless, the opening of branches throughout the country is not the final goal of any bank. The viability of the bank can be measured on the basis of deposits and advances. So the spotlight on the deposits accretion *vis-a-vis* credit expansion cannot be overlooked in the context of the branch expansion of commercial banking.

During the period July 18, 1969 to June 27, 1980 deposits of all Indian scheduled commercial banks increased by Rs. 28,633

*** Mr. Ajit Kumar Sinha is Lecturer n the University Department of Economics, Bhagalpur University, Bhagalpur-812 007, (Bihar).**

crores from Rs. 4,650 crores to Rs. 33,283 crores — or little over seven-fold. The reasons for the growing trend in deposits were mainly the acceleration of branch expansion throughout the country, the development of banking habits, particularly in rural areas and semi-urban areas, attractive rates of interest and offering additional facilities to depositors. Dr. K. S. Krishnaswamy holds that the deposits by the end of 1982 are likely to go up to Rs. 50,000 – 58,000 crores. Deposits as a percentage of national income increased from 15.3 per cent in June 1969 to about 35 per cent in June 1980 at current prices while deposits of scheduled commercial banks per office increased from Rs. 58 lakhs in June 1969 to about Rs. 96 lakhs in June 1980. The growing banking habit is further substantiated by the evidence of gradual shift in relative preference in favour of bank money, particularly time deposits against currency. Between June 19, 1969 and June 19, 1980, time deposits increased from Rs. 2,542 crores to Rs. 22,652 crores. Even more than the increase in the volume of deposits, it is the change in their composition that has been significant. The ratio of rural and semi-urban deposits also went up from 22 per cent in 1969 to 32 per cent in 1980, signifying greater mobilisation of savings from rural and semi-urban areas.

The point to note is that aggregate deposits of the scheduled commercial banks rose by Rs. 4,612 crores during the year between Jund 29, 1979 and June 27, 1980 as against Rs. 5,359 crores during the preceding year. Thus the rate of growth of aggregate deposits decelerated from 23 per cent in 1978-79 to 16.1 per cent in 1979-80.

Notwithstanding the decline in real national income, if deposits grew by 16.1 per cent in 1979-80, this is attributable in part to another factor. Because of the unusually high rate of inflation—the rise in wholesale prices was around 20 per cent in1979-80—nominal or money incomes rose substantially and, therefore, the growth in deposits recorded during the year also reflects the impact of the rise in nominal incomes.

With regard to the quantum and character of advances by the commercial banks since nationalisation, one can find a sharply marked transformation and progress. In December 1969, the bank credit advanced was of Rs 2,454 crores while on January 12, 1979 the bank advances went up to Rs 17,518 crores. The sectoral distribution of credit has undergone a marked change in favour of the priority sector and small borrowers. A target placed before the banks in this regard was to raise the level of their advances to priority sectors to 33.3 per cent of total advances. As at the end of March, 1980, priority sector davances constituted 31.2 per cent of the total bank credit.

The banks have been asked to raise the credit-deposit ratio of their rural and semi-urban branches to 60 per cent. While credit-deposit ratio of the rural branches was 37.5 in June 1969, and of semi-urban branches 39.7, it increased to 54.4 and 47.2 respectively in

UNION BANK

HAS FASCINATING NEWS FOR TIME DEPOSITORS

(Per cent per annum)

Term Deposits	Old rates (since March 2, 1981)	New rates (from March 1, 1982)
15 to 45 days	2.5	3.0
45 to 90 days	3.0	4.0
91 days and above but less than 6 months	4.0	5.0
6 months and above but less than 9 months	4.5	6.0
9 months and above but less than 1 year	5.5	7.0
1 year and above but less than 2 years	7.5	8.0
2 years and above but less than 3 years	8.5	9.0
3 years and above	10.0	10.0

Make saving a regular habit with UNION BANK OF INDIA

We help you help yourself

UNION BANK OF INDIA

(A Government of India Undertaking)

June 1979. The credit-deposit ratio of urban and metropolitan branches declined from 90.0 to 79.4 in the same period. But the credit-deposit ratio of rural and semi-urban branches is far below the national average of 69.5 as well as the target of 60 per cent.

State-wise distribution of deposits and advances of new offices as at the end of March, 1980, indicated that there were wide variations in the performance of new offices in different States. Maharashtra contributed the largest share of deposits to the tune of Rs 8,21,864 lakhs as against the total deposit of Rs 39,11,634 lakhs (i.e about 20 per cent) as at the end of December 1977 but it claimed an even larger share in credit during the same period. Some of the under-developed States like Assam, Bihar and Jummu and Kashmir contributed more to the deposits mobilised by new offices than what they received in terms of credit. On the other hand,a few other under-developed States like Orissa contributed only 2.4 per cent to deposits but claimed 7.5 per cent of credit at the end of June 1970. The credit-deposit ratio, therefore, varied widely in different regions and states. As at the end of June 1979, the all-India credit-deposit ratio stood at 69.5 per cent. Region-wise, the Northern-Region and the Southern Region had credit-deposit ratio above the all-India level.

The North-Eastern region had the lowest credit-deposit ratio of 36 per cent. Among the different States/Union Territories, the ratios show a wide range of variation from 2.6 per cent in Sikkim to 313.2 per cent in Chandigarh. This may be due to various factors such as lack of necessary infrastructure, varying ability of different regions to absorb credit and so on.

CREDIT–DEPOSIT RATIO OF COMMERCIAL BANKS

(as on June 30, 1879)

Region	Credit-Deposit Ratio
North Rcgion	87.2
North-Eastern Region	36.0
Eastern Region	55.5
Central Region	49.2
Western Region	68.9
Southern Region	77.7

Source : Report on Trend and Progress of Banking in India 1979-80

III

A pronounced thrust towards both spatial and functional spread of commercial banking has followed the nationalisation of 14 major commercial banks in July 1969. No doubt, a record number of branch offices have been opened. It is not merely the increase in the number of banking offices but their distribution over the relatively backward and hitherto unbanked areas that is significant. Within a short span of 10 years, banks have made a conscious effort to correct the long standing disparities in the regional spread of banking facilities. The national average of population per banking office has been brought down substantially and the average in certain regions has been narrowed.

The performance of new branches in mobilising deposits in rural areas, particularly in the hitherto unbanked centres, is reasonably satisfactory. The increase in credit facilities, particularly in rural centres, is evident from the fact that as against a credit-deposit ratio of 41 per cent in 1966 in rural centres for all bank offices, the ratio for new offices in banked rural centres was as high as 85 per cent and for those in hitherto unbanked rural centres was 68 per cent in June 1979. Considering that lending to agriculturists is a new line of business for commercial banks, guidelines have been devised and issued to banks to ensure that the quality of the lending receives adequate attention.

An important aspect of deposit mobilisation in rural centres is the initial dispensation of credit in such areas. It is only with the initial supply of institutional credit at reasonable rates of interest that the banking habit can be developed among the rural people and the influence of the unorganised sector reduced. Such extension of credit has to be accompanied by efforts to inculcate the banking and saving habits among the rural people, so that deposit mobilisation is assisted and transactions are channelled through the medium of banks..

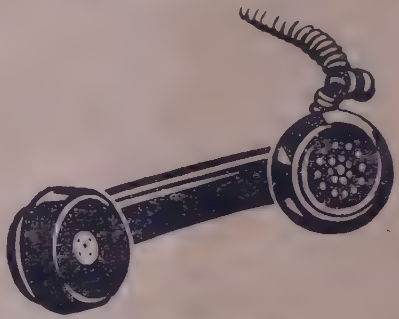
The massive branch expansion programme since nationalisation and the direction in which credit and banking policies have moved has naturally raised great expectations. There are still wide inter-district variations, both in terms of population coverage and credit-deposit ratios. The most important task before the banking system is to pay urgent attention to backward areas and to play a positive role in the socio-economic development of the country.

CREDIT FOR PURCHASE OF TRACTORS

The Reserve Bank has reiterated that the scheduled eommercial banks should continue to grant credit to farmers for purchase of tractors. In order to help the banks to extend credit in this connection, RBI has decided to consider, on merit, provision of discretionary refinance accommodation to the total extent of Rs. 10 crores to commercial banks for the period between mid-March and mid-June 1982. With a view to maximising utilisation of credit for tractor purchase, the banks have been advised to stipulate a uniform margin of 25 per cent in respect of all such advances.

It may be recalled that the Agricultural Refinance and Development Corporation recently decided to provide interim accommodation to commercial banks so as to enable them to meet the credit needs of farmers for purchase of tractors, thus facilitating preparatory farm operations relating to the ensuing kharif season. The interim accommodation to be provided to cnmmercial banks will be of the order of Rs. 36 crores. It bears an interest of ten per cent and is to be adjusted within 60 days against regular term loans from ARDC. The ARDC is also providing similar interim accomodation to state land development banks to enable them to meet the credit needs of farmers for purchase of tractors. The total of such accomodation will be Rs. 34 crores.

"To a corporate client, an expert financial advisor who knows his business and banking needs is vital."



At Grindlays, he's no more than a phone call away.

The job of an account manager is a two-way street. He represents the bank to the corporate customer and represents the customer in the bank.

The idea is to smoothen the rough edges of the service to the customer. At all times, he must have a clear picture of the relationship of each account with the bank and act as the "early warning system" if trouble is brewing.

His other vital role is as an advisor to his customers, providing the "outside" view on their finances. It takes a sharp mind and an overall grasp of all facets of corporate banking and the business environment to do justice to the job.

The Grindlays expertise and experience as well as well-developed business norms and relationships put the Grindlays account managers on top of their job. And, the gain belongs to the Grindlays customers and the country.

All this is a part of how Grindlays works to give business and industry the international banking assistance they need.

Grindlays Bank p.l.c.

Incorporated in the United Kingdom.
The liability of members is limited.

ASP/HK/781/139 A

Is there a Need to Restructure Banks?

By ABDUL MOMIN*

NOW that major banks are in the public sector and bank advances have to be purposefully directed towards the creation of productive assets and resources, the question of restructuring them has assumed importance. They have the country's resources at their command and accretion of further resources must necessarily depend on how these resources are canalised.

Restructuring is necessary not only to monitor the flow of credit to socially desirable directions but also to economise on the resources now being wasted in competition among public sector banks for wooing deposits and in opening new branches. In evolving banking practices and procedures, attention has to be focussed on ensuring the safety of funds, efficient service to customers and economy of operations so that banks are run on a profitable basis[1]. If reorganisation helps to reduce expenditure, this should be welcomed.

As a matter of principle, reorganisation of public sector banks was recommended by the Banking Commission more than a decade ago as one of the follow-up measures after nationalisation. On July 19, 1969, i. e., a few months after the Commission had started its work, 14 major commercial banks were nationalised with the objective of controlling the commanding haights of the economy and "to meet progressively, and serve better the needs of development of the economy in conformity with the national policy and objectives"[2].

To this were added six more banks on April 15 1980 and, taking into account the State Bank of India with its seven subsidiaries, the number is 28. Each nationalised bank was given certain lead districts in the country, where it was considered best equiped to study, survey, and stimulate banking through its leadership over the other bank's branches. They were also asked to prepare techno-economic surveys of each district alloted to them to decide its developmental needs. Thus, over 350 districts of India were placed on the banking map.

Hopes raised by nationalisation have remained unfulfilled and the banks' resources have not really gone where these are most critically needed for bringing about allround development. It is not unusual to find banks guided by credit worthiness of the project and recovery of loan than by the growth potential. Banks have not been able to get away from their security-oriented outlook, nor have they been able to receive signals of borrowing industrial units becoming sick. They cater to successful enterprises and not the nascent and struggling entrepreneurs, who have little to offer by way of security beyond an idea and an enterprise. They have followed rather than led the growth, while at the social level they were not geared to fill the void in the neglected sectors of the economy. The banks have turned to where there is profit and not where there is promise, specially where the promise has a risk involved.

The banks have not changed their outlook to assume responsibilities of developmental banking. They cut into each other's deposits and crowd into areas by opening branches where other banks are already operating. In doing so, they are only duplicating each other's work and wasting resources which could otherwise be used profitably. To the extent, competition can be dispensed with and wastage of resources is saved, any plan for organisation of public sector banks would improve their profitability which has since been eroded by the burden of developmental banking.

On the face of it, a restructuring will straightaway cut down the number of nationalised banks by merger into a handful of all-India banks and an equal number of regional banks. The phenomenal rise in bank branches from 8,000 at the time of nationalisation to 32,000 as at present has been most haphazard[3]. Mr. N. N. Pai, chairman of the IDBI, at a seminar on "Indian Banking in Eighties" which was organised by the All Indian Bank of Rajasthan Officials on November 2, 1981 said, "according to the Sixth-Plan, the number of branches would annually increase by about 3,000 taking the total number of branches to around 62,000 by the end of the decade[4]".

It means there would be an average increase of around 8 branches per day. On the other hand, the number of rural branches was 15,000 in June 1980. Even assuming that one rural branch would, on an average serve 10 villages, about 45,000 additional branches would have to be set up in rural arears to cover the 6 lakh villages in the country[5]. Branch expansion can be made more relevant to the need and it will be easy to control if these are rearranged. Branches in unbanked areas can also be viable sooner than now when they have to compete for deposits. The average rate of branch expansion was 13 per cent in the seventies. It was only during the last three years that the rate of expansion was substantially reduced to 8 per cent.

Creditable as has been the progress made by banks, particularly in the direction of opening branches from Kohima' in the eastern frontier, to Kanyakumari, the southern tip, it has also been accompanied by several other problems, the chief among which are the deterioration in the quality of banking services and profitability of the banks—both arising from rapid expansion of branches in the rural and semi-urban areas and the organisational and managerial problems created by the same[6]. Also, from the point of view of national economy, the disparities between the different regions as well as different areas within the regions have widened owing to the uneven growth of banking as well as the element of wastage of national resources owing to unhealthy competition by the existence of several financial instiutions, viz., commercial banks and co-operative banks in the same areas.

---

* The author is a Ph. D. Scholar in the Deptt. of Economics, Aligarh Muslim University, Aligarh.

Restructuring of public sector banks is also necessary to correct regional imbalances already created through neglecting backward areas and intensifying banking activities in advanced areas. The Parliamentary Committee on Public Undertakings has pulled up the Industrial Development Bank of India (IDBI) for its pronounced regional imbalance in the assistance rendered. The Committee's latest report, which examines the working of the country's apex financial institutions for developmental assistance, regrets that the share of the north-eastern region was almost negligible—around one per cent.

On the other hand, two industrially developed states—Maharashtra and Gujarat accounted for about 32 per cent of the total assistance (including guarantees) of Rs. 7, 524 crore rendered by the IDBI during the past 17 years (i.e. since its inception on July 1964 upto end 1981)[7]. Of the total sanctions since IDBI inception, the western region and southern region accounted for 36 per cent and 28 per cent respectively; while the share of northern, central and eastern regions was around 12 per cent each. Though the role of IDBI as a development bank is somewhat limited, the emerging pattern of underdevelopment perpetuating further under-development has serious socio-economic implications.

In the wake of unsatisfactory performance of public sector banks in West Bengal, the State Government is on the move to start a bank of its own with an authorised capital of Rs. 5 crore. West Bengal's Finance Minister, Dr. Ashok Mitra, expressed his impatience when he said: "we cannot wait for ever for the public sector banks to change their culture". Again, on December 15 1981, he said that he would once again seek an answer to West Bengal's application for permission to set up a State Bank. Dr. Mitra contended that so far, five reminders have been sent to RBI for a reply but there has been complete silence from that end. He has demanded that a state representative be inducted into the local board of the RBI. He has found it 'surprising' that no state government member sits on the local board and that the state government is thus 'totally disassociated' from all discussions on central monetary policy. West Bengal's banking facilities are meagre. As at the end of June 1980 West Bengal had only 2,040 bank offices compared to 2,477 in Andhra Pradesh, 2,243 in Gujarat, 2,636 in Karnataka, 2,191 in Kerala, 3,320 in Maharashtra, 2,814 in Tamil Nadu and 3,740 in Uttar Pradesh[9].

On the other side, the Gujarat government has also approached the Union finance ministry and the RBI with a far-reaching proposal for restructuring the banking system at district level. The proposal provides for operation of only one exclusive bank in every district of the state, so as to cater for all agricultural and other needs of the

Save in Canara Bank's

KAMADHENU DEPOSIT SCHEME

"An investment to fulfil your dream"

Be it owning a house or car or meeting any special large expenses like your daughter's wedding or a holiday tour.

Start a Kamadhenu Deposit Account today. Your money will earn a higher interest since it will be compounded quarterly.

Contact our nearest branch for details.

Our other special deposit schemes:

Vidya Nidhi Deposit □ Nirantara Deposit □ Balakshema Deposit □ Platinum Jubilee Cash Certificate Scheme.

CANARA BANK

(A Nationalised Bank)
H. O. Bangalore-560 002.

More than 1350 branches all over India

farmers from a single window. The proposal submitted by Mr. Sanat Mehta, Gujarat Finance Minister, pleads that a fair trial to the scheme at least on a pilot basis should be given in some districts, so that the mechanism of these "district banks" could be made an effective tool of rural development.

Based on a study prepared by Mr. Mathuradas Shah, Additional Chief Secretary of Gujarat government, in charge of finance, agriculture and co-operation, Mr. Sanat Mehta has urged the central authorities to restructure the rural banking system integrating the aspects of both rural credit and rural development. The scheme, which provides for operation of only one bank in every district, leaves no scope for any competition between the banks, either commercial or co-operative.

The scheme has been designed to eliminate all political influences prevalent in the co-operative banking sector, creating serious hurdles in way of effective recovery of loan advanced to farmers and also the possibility of farmers, defaulting in loan payment to one bank, conveniently availing further advances from another bank as at present.

Observing that there is absolutely no co-operation between various branches or even the same commercial bank in any district, Mr. Shah asks: "How can then a lead bank ensure co-ordination among all branches of different commercial banks in the district". He observes that the various branches of the lead banks, at present, "are not in a position to ensure adequate co-ordination between supplier of credit on the one hand and the supplier of inputs, such as raw materials, improved skills, modern tools and markets on the other".[10]

The public sector banks have been asked to take a helpful attitude in extending loans to the neglected and the under privileged sectors of the society, small entrepreneurs, small industry, agriculture, self-employed and the very weak sections of the society. As experiences have revealed, the affluent class of borrowers had benefited more than the weaker sections of the society. Therefore, the government wants to step up credit to the farm sector to 16 per cent of the total advances by 1983 and 50 per cent of the direct lending to agriculture would go to the vulnerable sections of society.

In the small scale industry sector, weaker section would account for 12.5 per cent of the small scale industry by 1985 as against the present ratio of about 6.25 per cent. Small and marginal farmers owing upto two hectares, landless labourers and persons engaged in allied activities for which their borrowal limit does not exceed Rs. 10,000 are defined as the 'weaker sections'. In the small scale industry sector, the weaker sections would comprise artisans, draftsmen, cottage and village industry and other small units having credit limits not exceeding Rs. 25,000.

Banks have been asked to lend 40 per cent of the additional credit every year to the priority sectors and at least 40 per cent of the priority-sector advances to agriculture[11]. At present the performance of banks in such advances varies from 8 to 28 per cent of the total advances. Thus in the case of some banks this would no doubt present some challenge and would require a planned effort to be made to achieve the target.

And merely extending credits to certain sectors in the economy at the cost of certain other sectors would not, however, solve the problem, the efficient services for monitoring of the credit which banks offer will have a great bearing on their productivity as wells as the benefits they will confer on the society.

The government's determination to help people develop and expand their economic activities requires that a new pattern should be given to public sector banks and that they should be given a more cohesive form. Nearly is 3 lakh people are employed in these banks. Reorganisation would result in better utilisation of personnel between under-staffed and over-staffed banks. The bank employees' union is well organised and strong and it would be necessary to have its opinion on any proposal of reorganisation.

The state governments will also have to be consulted before any structural reorganisation takes effect. Since nationalisation of banks was made by an Act of Parliament, the consent of Parliament will be necessary for any structural change. An in-depth examination of various problems, particularly the need to build up a large cadre of bank employee, will be necessary. This will be separate from other cadres of employees existing in the public sector but will be common to the public sector banks.

There are strong reasons for restructing public sector banks. One is that the objectives of nationalisation will be fulfilled if they are reorganised. Whether reorganisation will eventually succeed will depend on how the bank employees take upon themselves the responsibility of innovative banking.

SCURCES AND REFERENCES

1. c.f. Banking Commission (Govt. of India), Report of the Study Group on Bank Procedures, Examiner Press, Bombay, 1972, p.9.

2. Preamble to the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970.

3. *Southern Economist*, January 15, 1982.

4. The *Economic Times*, New Delhi, Nov. 3, 1981.

5. The *Economic Times*, New Delhi, Nov. 22, 1980. p.I,

6. Kothari's Economic and Industrial Guide of India, Diocesan Press, Madras, 1978-79, p. 3.

7. The *Economic Times*, New Delhi, Nov. 22, 1981.

8. The *Economic Times*, New Delhi, Dec. 16, 1981.

9. Department of Banking Operation and Development RBI.

10. The *Economic Times*, New Delhi, Dec. 17, 1981.

11. Report on Trend and Progress of Banking in India, a supplement to the RBI Bulletin, June, 1980. p. 16.

Subscribe to :

SOUTHERN ECONOMIST

106-108, Infantry Road,

Bangalore-560 001

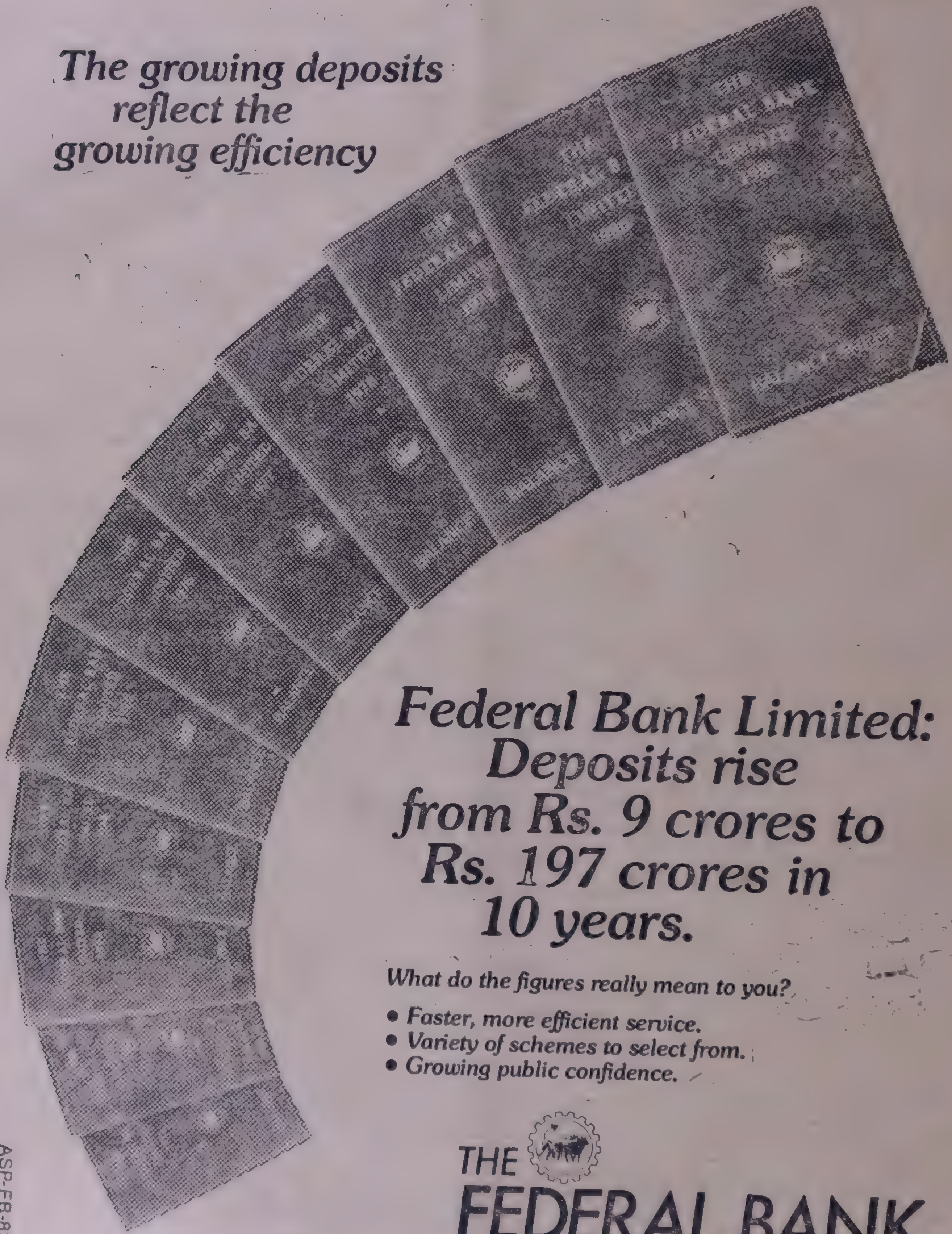
Subscription Rate :

Rs. 50 per annum

(*Foreign:* 15 Dollars)

surface mail

*The growing deposits
reflect the
growing efficiency*



**Federal Bank Limited:
Deposits rise
from Rs. 9 crores to
Rs. 197 crores in
10 years.**

What do the figures really mean to you?

- *Faster, more efficient service.*
- *Variety of schemes to select from.*
- *Growing public confidence.*

THE
FEDERAL BANK
LIMITED Regd. Office: Alwaye, Kerala

Banking efficiency at its best

ASP-FB-8201

Role of Banking in Rural Development

By NARESH JHA *

THE post-nationalisation development of banking in India is its thrust into the rural sector. Before nationalisation, banking was hesitant in financing the agriculture. The main obstacle standing in the way of financing the agricultural sector was that agriculture is a gamble in the rains and that the agriculturists did not have reasonable security to offer. Consequently, the provision of rural credit involved more than the usual Banking risks which called for special safeguards. There was sentimental reluctance of the farmer to mortgage his land.[1] The farmer's property is immune from attachment in execution of a court decree under the Agrarian Laws of some states. All these factors acted as impediments to the extension of bank finance for agriculture.

The basic objectives of nationalisation of banking in 1969 were (i) to remove the monopolistic trend which had already begun to develop in the banking business and (ii) to spread the banking network in the rural sector of the economy. This is simply because of the fact that in the absence of rural development, national economy may not achieve 'balanced' growth. The basic nature of the Indian economy is agrarian. Eighty per cent of the total population are living in our villages and get their means of livelihood from agriculture and allied activities. There is much gap in the income generation between tural and urban sectors of the economy. The contribution to the national income of the agricultural sector, where 70 per cent of population are engaged, is 40 to 42 per cent. The magnitude of unemployment is much higher in the rural area than in the urban area and the problem of poverty is more severe there. In a state like Bihar, the population below poverty line constitutes a staggering 64 per cent.

Among the rural population, the majority consists of the small farmers and of landless workers. As agriculture is still under-developed, the farmers do not get employment all round the year. They get employment only during the cultivation period and during the off season, they remain unemployed. Thus, during the off season, they must take loans for consumption purposes or face starvation.

Related to this situation, a new phenomenon has been developing in backward states like Bihar. In the absence of whole time employment, the rural workers go to the urban sector for factory jobs and in the recent years, to Haryana and Punjab for casual work in the farms. The temporary migrations of labour force produces the problem of labour shortage in their native states during cultivation period without bringing any permanent improvement in their own economic condition. This is simply because of the fact that the village poor, who migrate outside the state in search of jobs must take recourse to loans which normally they take from big farmers and village traders. The rate of interest of such loans is so high that the income earned is spent in the repayment of loan. If this situation continues, it may further widen the gap between the haves and the have nots in the rural areas.

The basic objectives of our planned development are to improve the economic conditions of the poor, bridge the gap of earnings between haves and have-nots and to remove the regional imbalances. The resulting policy is responsible for the pattern of banking development of the country in recent years. During the seventies, the banks have spread their net work in the rural segment. And in this race of banking development. some sort of competition has been developing among the banks.

It is said that in a low capital economy, banking plays an important role in the determination of economic expansion. This is simply because of the fact that economy needs a heavy dose of investment during the early years of planning. With the growth of banking habits, the flow of fund begins to change hands. In the rurat sector, where credit demands are normally met by the traditions sources, the public sector must take over the lead and responsibility for meeting the growing credit needs. Here the emergence of banking is supposed to quicken the pace of development in two ways: (1) the cost of borrowing will lower cost of will recode on the one hand, and (2) there is at hand an assured supply of adequate credit.

But the real problem is how to change the behaviour of rural people. They are illiterate and ignorant. Here planning machinary may play an important role in changing the behaviour of rural people. In France the indicative planning gives much more emphasis on the programme of adult education. Thus, in the Indian case, the local planning machinery should adopt the programme of propaganda through which the rural people may be acquainted with the programme.

Though financing of agriculture and rural development programme by commercial banks started in 1955, with the establishment of State Bank of India, in the true sense, this trend developed only after the nationalisation of banks in 1969. There were two issues raised before the nationalisation of banks in 1969. One was the alleged trend that the banking system was developing a monopolistic structure. When banks develop into monopolies, or oligopolies, it would be in the interest of the society to transfer its ownership to the State. Another argument was that in India, there was a strong opinion in favour of bank nationalisation. It is the duty of

---

* Mr. Naresh Jha is Lecturer in the University Deptt. of Economics, Bhagalpur University, Bhagalpur-812007.

the modern democratic Government to respond to popular demand[2]. As the majority population are poor and live in villages, it become obligatory to banks to spread its net work in the rural areas for two purposes: One was to mobilise deposits, the other was to institutionalise rural deposits and credits.

The performance of banking development in the rural areas can be measured by branch expansion, deposit mobilisation, and the extent of credit dispensation. The number of rural branches, which was 1832 on June 30, 1969 increased to 15, 101 in 1980 recording the growth of more than eight times over a period of 11 years. Similarly, the rural deposits which stood at only Rs. 145 crores or 3.1 per cent of the total deposit in the year 1969 rose to Rs. 1,763 crores or 9.3 per cent in 1977. In the case of advancing of loans which was only to the tune of Rs. 54 crores in 1969 or 1.5 per cent, the level rose to 895 crores or 6.5 per cent during the same period. The annual rate of growth came to the levels of 36.7 per cent and 42.0 respectively in deposit and loans. These developments in the banking in an area which lay completely out of the purview of the banking world until recently is a welcome sign.

The basic assumption that the banks are the trustees of public deposits needs to be interpreted in a more meaningful way. They should be assured of repayment but collateral security need not be insisted upon. Thus banks could with advantage seek to tag on a saving scheme to lending in rural areas and to the small man as a means of deposit mobilisation and credit expansion over a wider areas as well as of spreading the banking habit.[3]

The purposes behind the banking development in the rural areas are to (i) mobilise deposits to meet the demand for rural development expenditure, (ii) remove regional variations in the income generation by the deployment of credit to the priority sector, and (iii) to set the pace of economic growth in the rural sector, so that economy may achieve the objective of balanced growth, The experiences of banking development in this regard, as we have seen above, are on the whole satisfactory. During seventies, the banking business has progressed to a great extent, The Reserve Bank of India is taking keen interest in the deployment of credit to the rural sector. The most important among the stipulations laid down by the authorities in regard to credit deployment, currently in force are as under.

(i) Bank finance to priority sector to reach 40 per cent of their total credit by 1985;

(ii) Bank lending to agriculture and to the units under the DIR Schemes to be 16 per cent and 1 per cent respectively of the total eredit, and

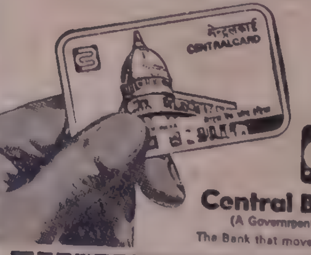
(iii) Bank credit at rural and semi-urban centres to be 60 per cent of the drposits mobilised there. In addition these there are other expectations from the banking industry, such as (i) full systematic implementation of the district credit plans and (ii) increased deployment of credit for the development of backward areas.[4]

At times like this,
you need not worry about cash.

Discover for yourself
the convenience of
Centralcard

See how easy it is to settle bills—without paying cash down. At restaurants, hotels, department stores. In fact, Centralcard is valid at a large number of establishments all over India and Nepal.

And only Centralcard gives you the special facility of drawing cash instantly. Upto Rs. 2,500 per month from any of Central Bank's wide network of over 2000 branches.



Central Bank of India
(A Government of India Undertaking)
The Bank that moves out to people and places

For detailed folder and membership forms, mail this coupon to the Chief Manager, Centralcard, Central Bank of India, Kasturi Building, J. Tata Road, Bombay 400 020.
Name________
Address________
Occupation________

Interpub CBI/7/81

The real problem of the rural areas is that of unemployment. What contributions can banks make in this regard? One way is to provide finances to the priority sector and to the schemes of DIR. The emphasis on financing of weaker sections has assumed a new sense of urgency. Under the Integrated Rural Development Programme, which has since been extended to all the blocks in the country, weaker section financing would be fitted into the over-all framework of integrated planning at the block level but unless some of the basic issues underlying such financing are property under stood, these efforts may not be fruitful[5].

Most of the economie activities in the rural sector in which the weaker sections of the society are engaged sufier from 'credit gaps'. Marginal farmers, rural artisans, fisherman etc. suffer from a lack of credit facilities and it is hoped that supply of credit will solve their problem, It is however, forgotten that in their case, the 'credit gap' is only a reflection of the problem of the lack of viability of their operations. The marginal farmer, for example, raises a small crop which is hardly enough to meet the family's subsistence requirements for more than a few months.

Here, credit demand is essentially for consumption while such credit needs have to be met. It must be borne in mind that this is not a 'credit gap' in a real sense of the term. It is in fact an income gap which is being bridged temporarily with the help of credit. Credit gap in the real sense of the term arises only where a viable economic activity suffers for lack of credit. Where income gap is sought to be bridged with the help of credit, the repayment of the credit always poses serious problem.

In such cases, every effort must be made to raise the income level of the family through the combined efforts of the official agencies and credit institutions. The weaker sections can be assisted through a public works programme for creating social capital or for infrastructure development, which can provide them gainful employment.

The programmes of social forestry development, Employment Guarantee Schemes, National Employment Programme etc. are aimed at supplementing the income of the rural people. Credit institutions can no doubt, help these persons by financing their productive activities. But development in the real sense may not occur easily. It needs the continued effort of the official agencies and credit institution, Under the integreated Rural Development Programme, which seeks to evolve integrated programmes covering all the major sectors of the rural economy, such inter-weaving of the schemes should be aimed at. This will, however, need careful planning on the part of the block level planner and the credit planner.

The experience of the seventies has shown the impact of bank credit in improving the socio-economic conditions of the weaker sections. Accoding to a study of the State Bank of India, bank credit to weaker sections of the society has helped considerably in improving their socio-economic conditions in recent years with an average increase in the net income of their sections from Rs 24 to Rs 274 per cent. The study reveals that the standard of living of the poor has improved sufficienty to lift many of them above the poverty line. Bank loans enabled small borrowers in different activities to raise the levels of investment provision of bank loans being between Rs 62 and Rs 8,569 per borrower, depending on the nature of activities.[6]

Thus the experiences of the sevnnties bear ample evidence to show that banking has emerged as a pace setter for growth. Whatever steps have been taken so far by the banks in India for the development of the rural sector is not suffieient in view of the magnitudes of the rural problems and there is a long way to go in this direction. The banks, while financing the rural development projects, should throughly investigate the viability of the projects. Another point worth considering is the problem of the diversion of rural fund to the urban sector. This is a new phenomenon being observed in banking operations. This trend must be curbed. And lastly, the programme of rural financing should be taken up as a challenge. The Banks should engage themselves in this task with the close co-operation of local officials.

REFERENCES

1. Sharma, D.S.R. and Baba, G.S. New Horisons for Commercial Banks, *AICC Economic Review July 1 1969*, p. 23

2. Alexander, K. Joseph, A Case for Competitive Efficiency in Nationalised Banks, *AICC Economic Reviw* November, 1969

3. JHA, L.K., Banking and Development, *Reserve Bank of India Bulletin*, Feb, 1970 p. 272

4. Nambiar, P.C.D.: Banking Policy: which Directions? *COMMERCE*, Sept. 20, 1980, p. 551

5 Kanvinde, D.J., Financing of Weaker Sections under *IRDP-Economic Times* Nov, 22, 1980

6 SBI Study, *Economic Times*, April 21, 1981

MODEST RISE IN SBM DEPOSITS

The State Bank of Mysore registered a growth rate of 14.35 per cent (as against 24.46 per cent during previous year) in its deposits in 1981. The deposits and other accounts stood at Rs. 394,54 crores as at the end of 1981 as against Rs. 343.57 crores as at the end of 1980, showing an absolute increase of Rs. 51.02 crores. Owing to the drought conditions which prevailed in several districts of Karnataka, there was a slide in the grawth rate of deposits. The advances of the Bank increased to Rs. 248.89 crores in 1981 from Rs. 195.36 crores at the end of 1980 registering an absolute increase of Rs. 53.03 crores with a growth rate of 27.06 per cent. The credit-deposit ratio was 67.59 per cent, Of the total advances of Rs. 248.89 crores, credit to an extent of Rs. 97.80 crores was channelised to the priority sector segment. This represents 39.29 per cent of the total advances as against the expectation of the Government of 40 per cent to be achieved before the end of 1985.

Can NABARD Provides New thrust for Rural Credit?

By R. S. TIWARI

THE Government has finally decided to set up the National Bank for Agriculture and Rural Development (NABARD), as an apex boby to meet the growing and complex credit requirements of the farm sector. Already, a number of agencies are working in this field, e.g., co-operative societies, co-operative banks, land development bank, Regional Rural Banks, commercial banks and their special rural branches and agricultural branches, Agriculture Refinance Development Corporation, etc. etc. A number of Committees and Commissions have examined the crucial issue and generally came out with a proposal of new body to streamline credit to this important sector. NABARD is the latest innovation. The proposal for setting up this body has emerged from the eight-member committee of experts headed by by Mr. B. Sivaraman.

The basic objective of this Bank is to bring about an administrative change in the existing arrangements at the apex level for the promotion of rural development and credit. There has been demand for setting up a separate apex bank financing all aspects of agricultural operations in the country on the same lines as the Industrial Development Bank of India for long-term financing of Industries. The Sivaraman Committee was appointed by RBI to examine (a) the functioning of existing co-operative credit structure, and (b) the need for integrating the short term and medium term credit structure with the long term credit structure at the national, state, district and village levels in the context of the intensification of rural development programmes.

In its final report, the Committee advocated the virtual maintenance of the *status quo*, but it has done this without going deep into the causes of the tardy growth of co-operative credit institutions in the country. Nor has it made a critical assessement of the inadequacies in the existing system of short-term and long-term credits for rural development. According to its terms of reference, the Committee was required to make a review of ARDC's working "in the light of the growing need for term loans for agricultural and allied purposes, including village industries, marketing, processing and other services relevant to integrated rural development." Although the Committee made an account of the activities of the ARDC, yet it does not attempt a dispassionate in-depth review of its operations or a cost benefit analysis of its financing. However, the Committee examined in details the need for integrating the short and medium term credit structure with the long-term credit structure at various levels, i.e., national, state, district and village levels in the context of the intensification of rural development programmes.

Thus Committee considered it proper to have a new institutional entity with the Reserve Bank's rural credit department handling short term credit. Recently, it has been noted that implementation of Integrated Rural Development Programme is being delayed owing to slow utilisation of credit by the State governments as well as failure on the part of Financial institution to make available the matching contributions under the programme.

NABARD will combine in itself the developmental and financial roles which were so far being done by the Reserve Bank and ARDC. It is noted that RBI as the central bank is primarily engaged in regulatory functions and its developmental and promotional role is inhibited. However, unlike IDBI, NABARD is proposed to be an institution owned equally by the Government and RBI.

The Sivaraman Committee has emphasised the need for close relationship between the proposed NABARD and RBI for smooth and efficient functioning of the farm bank and of the entire institutional rural credit system of which NABARD will now be the leader. NABARD would now be responsible for all matters relating to rural credit which hitherto handled by RBI and ARDC. It will be in constant touch and consultation with RBI which has the responsibility for the national credit and monetary policy. Thus, the relationship between the two should be conceived as an evolving one. It has to be a process of devising modalities in the light of needs and problems as they emerge. NABARD will be free to set its own policies and carry out its own operations, subject to the controls and directives laid down by RBI and the consultations that are considered necessary. On the other hand, RBI would take such measures which would strengthen NABARD—the National Bank for Agriculture and Rural Development.

NABARD would have three officials nominated by the government, three nominated by the State government, three directors who are experts in co-operatives and commercial bank operation and two experts in the rural economics. It is envigaged that the Reserve Bank will nominate three of the directors of its Central Board on the Board of NABARD, with a Deputy Governor of the Reserve Bank as Chairman.

NABARD will maintain a national rural credit fund and a national stabilisation fund. The Sivaraman Committee has suggested that RBI should contribute out of its profits to the fund for agriculture and the stabilisation fund now to be transferred to NABARD. RBI would continue to handle those cases which attract stipulations under the credit authorisation scheme. NABARD would extend redit support to institutional narketing but the procurement operation and price snpport operaions would be regulated by RBI. NABARD may have access to narket borrowing subject to RBI's egulations. It will be depending ipon RBI for its most of the funds nd thus it is but logical that it vill bank with RBI only. The nterest rate structure is determined by the RBI which keeps in mind he social objectives as well social costs involved.

NABARD has to streamline rural credit to achieve the basic objectives of the institutional credit policy. Non-institutional credit continues to predominate in the countryside though its share in the otal has declined drastically from more than 95 per cent to 65 per cent towards the second half of the seventies. Co–operation has not succeeded and there has been mounting overdues. Moreover, it is also noticed that it has favoured those who have substantial assets. In 1969, after the nationalisation, he commercial banks were brought in this field. The government has provided for a larger step up in the banks' role in expanding credit to agriculture particularly in respect of short term loans. The share of the agriculture and allied activities is about 12 per cent of the total advances of banks and according to Sixth Plan projections it is likely to be increased to 16 per cent at the end of the Plan.

However, it is observed that the ion's share of this credit has gone to the very social classes which benefitted from co-operatives. There is a wave of writting off the overdues of co–operatives as well as commercial banks. The co–operative approach is lacking and the elected managements are being supplanted with bureaucrats. Thus the credit structure has been olitícised in favour of the established better–off classes. Thus, tructural changes are required in his area. Institutional credit has ome important objectives, which an be summarised as:

1) to provide larger volume of institutional credit to agriculture sector for rural development.

2) to direct larger share to weaker sections,

3) to reduce the regional imbalances in the availability of credit

4) to bring proper coordination better various institutions working in the field to achieve adequate credit planning,

5) to improve the recovery position to ensure continuous recycling of funds,

6) to bring transformation of agriculture from subsistanoe farmming to industrial venture,

7) to foster the process of second phase of green revolution.

How far NABARD would be successful in achieving these objectives is a subject of analysis and crucial test to determine the propriety of its establishment. Here again, two questions are pertinent. First, whether the existing institutions cannot achieve these objectives? Secondly, Does NABARD envisages any structural reform in the system of rural credit? Unfortunately the answers to these two questions are not positive, to favour NABARD.

The basic objective behind the NABARD is integration of short and long term credit. This objective could have been achieved without the creation of a new organisation. ARDC, a term lending institution, has already been allowed to extend short term credit in select areas. For example, it has provided credit for meeting maintenance costs for long gestation projects like those for plantation, horticulture and sericulture. The simple extension of the area would have solved the issue, without resorting to the statutory process. It would have been better to examine in details the causes of the failure of ARDC or any other institition rather than creating a new institition like NABARD.

It is projected that institutional credit to agriculture and allied activities would increase from the base level of Rs. 2,550 crores in 1979–80 to Rs. 5415 crores by the end of the Sixth Plan. There is hardly any need to set up NABARD for this purpose since the existing institutions would have performed the same functions. Since NABARD does not propose any structural change, the quantitative approach is not going to solve the crucial problem of credit to rural poor. There is the facile assumption that mere provision of funds and addition of institution will lead to development and extension work need not be taken seriously.

It has been proved that modern technology is neutral to scale and even farming on holdings of sizes of 2 hectares can be made viable but the present system has an integral bias towards privileged classes. These small farmers cannot build up the infrastructure required to support the green revolution. There is also the question of farms of even smaller size, on which the large number of the rural flok depend. There is no strategy for bringing them under the cooperative fold in order to make them viable. Farmers service societies have not struck roots. Certain instititional changes are a must. But NABARD does not envisage any such change in absence of which, it cannot become an instrument for ushering in the second green revolution both by region and size class of farm holdings.

The district credit plans prepared by the lead banks have no integration with district development plan. Mostly the block level planning is found on paper only. According to the Sivraman Committee, NABARD is said to be "a logical step in the organisational evolution of the Reserve Bank itself to decentralise functions, while retaining the essential controls," This is a typical notion of decentralisation since NABARD will be a separate legal entity but it will have no independent decision-making authority. It will function according to RBI's direction. It is anybody's guess how decentralisation can be practiced without parting with essential controls. Since the new institution will depend on RBI for funds, it is futile to expect any material change in availability of credit to desirable sectors and classes.

There are a number of bottlenecks in achieving the objectives relating to rural credit. The problem of overdues is the primary one. Both in the short and medium overdues to outstandings at the primary agriculture credit societies level had been as much as 45.2 per cent as on June 30, 1979. In the long-term cooperative credit sector, the overdues of the primary land development banks to demand as on the same date had been 46.7 per cent. The overdue position in the case of commercial banks had been even worse, being 49.2 per cent as at the end of January 1978. In the absence of recycling, the funds are blocked and no institution can serve any purpose.

A number of directions are given by the Reserve Bank for extending credit to the weaker sections, priority sectors and backward areas, but in practice, the funds have flown to richer classes, developed areas and the least important in the priority sector. State Governments which are supposed to look into these fields are hardly clear about their objectives and merely act as pressure groups on the agencies in charge of disbursal of funds. In most of the states, there is no planning machinery worth the name and planning is nothing but an exercise of aggregation of sectoral plans. It is not merely the lack of resources, expertise, availability of funds or existence of institutions which is responsible for the failure of planning in our country. The real villain of the peace is the existing socio-economic set up which has an inherent bias to richer class and all the resources which are primarily earmarked for the poor are lapped up by this class. It is no use creating new institutions since they are also going to meet the same fate. NABARD's fate will be no different.

SLOW-DOWN IN GLOBAL INFLATION LIKELY IN 1982

The world money supply grew by some $ 207 billion in 1981 to a total of $ 2.3 trillion, according to Bank of America's calculation. That is a growth of 9.7 per cent — the lowest since 1970. World monetary growth peaked in 1978 at 13.2 per cent and has been declining since then. Bank of America's studies show that global inflation rates lag money growth by approximately two years, with inflation peaking in 1980. That year, the average global inflation rate was 15 per cent. During the past year, world inflation slowed to 13.8 per cent. One can expect a further moderation in the World inflation rate to about 12 per cent in 1982. The reason for this improvement is because many countries are pursuing tight monetary policies.

In the 1960s, when inflation averaged 4.3 per cent annually, the world economy was more vigorous than now. Inflation more than doubled to 9.4 per cent during the 1970s, During the same period, gross national product (GNP) growth rates fell from an annual average of 5.1 per cent to only 3.2 per cent. This pattern of increasing inflation and declining growth lays to rest the "myth" that inflation spurs economic growth, economist Robert Heller maintained.

He cited Japan as an example showing that high growth rates can be achieved in a climate of monetary tightness. The Japanese money stock (M1) did not grow at all between the end of 1978 and mid-1981. Yet, Japan's GNP grew at an annual rate of more than 4 per cent during the same period. At the same time, inflation came down to 5 per cent and Japan's treasury can raise money at less than 6 per cent. Overall, Bank of America expects world GNP to grow by 2.4 per cent in 1982 — reaching a level of over 14 trillion dollars.

BANK OF MADURA LIMITED

ANNOUNCES

REVISED INTEREST RATE ON TERM DEPOSITS
Effective from 1-3-1982

15 days to 45 days	3%
46 days to 90 days	4%
91 days and above but less than 6 months	5%
6 months and above but less than 9 months	6%
9 months and above but less than one year	7%
One year and above but less than two years	8%
Two years and above but less than three years	9%
Three years and above	10%

INVEST YOUR SAVINGS WITH OUR BANK
AND EARN HIGHER INTEREST

GROW WITH GROWING BANK

Regd. Office :
33, North Chitrai St.
Madurai-625 001.

Central Office :
758, Mount Road,
Madras-600 002.

RM. MUTHIAH
Chairman

Role of Exim Bank in India's Foreign Trade

By B. L. MATHUR *

India has a large number of export promotion agencies like Export Promotion Councils and Commodity Boards but their impact on India's foreign trade has just been minimal. Some of them were set up as early as the mid-50s, but judged by their results in terms of creating additional exports, they have not been an unalloyed success. Some of them are, of course, able to show an increase in foreign exchange earnings of the items they export largely because of inflationary pressures. Many of the agencies have quietly added to their export purview some or the other tradititional export items to make their statistical returns look respectable.

The decision to establish an Exim Bank is a step forward in the field of financing international trade. The suggestion to set up an Exim Bank was put forward initially by the working group on export credit, headed by the then Commerce Secretary, Mr. D. S. Joshi as early as in 1967. The Banking Commission, however, set its face against the creation of a new body in the field of export finance. The proposal for establishing an Export-Import Bank has been cleared by the both houses of our Parliment and the Bank has come into being.

The constraints of India's exports relate to quality and delivery schedules. The coal-power-steel bottleneck has held down industrial capacity utilisation. Over the years, modernisation of industry has been neglected in a variety of areas, including textiles. If the extablishment of the Exim Bank can be viewed as an important arm of export strategy, this should be surely accompained by economic measures which will enable the country to overcome the basic constraints on industrial production and exports. There is scope for Indian participation for the export of plant and machinery to third countries, especially those proximate to India. Such participation will require credit, including long-term credit from India, along with export risk cover. This is a field in which Exim Bank can play a role, provided the supportive investment in industry takes place.

Under these circumstances, the objectives of Exim Bank have apparently got blurred. The first in the list of objectives given is granting loans and advances in India soley or jointly with commercial banks to persons exporting or intending to export from India goods, including export of turnkey projects civil construction services. This is an all-embracing statement of objectives. Though the statement does not do any harm, it does not clearly set out the operational area of the new body either.

The Exim Bank is not to enter the areas of short-term credit given by the commercial banks. Its basic purpose is to encourage the export of capital goods, projects, construction, services and consultancy through the provision of long-term credit, refinance and back-up services. It is in this field that there is an institutional void at present. There are vast opportunities for project exports, expecially in the developing countries of Asia and Africa. However, India faces keen competion from developed countries in the quality of performance, in view of the liberal credit offered by the competitors.

The Engineering Export Promotion Council (EEPC) has envisaged that 50 per cent of the exports of the engineering industry will be in terms of projects by the end of this decade. If the country does indeed decide to adopt this target whatever its merits might otherwise be, the Exim Bank will necessarily have to give the highest priority to the financing of project exports.

The bank will manage transactions where a mix of government to government credit and Commercial Credit for exports is involved: Issuing bid bonds and guarantees and other similar facilities in India or abroad solely or jointly with commercial banks on behalf of persons exporting or intending to export from India goods including turn-key projects civil contracts or other contracts and other services including consultancy services. The following are the other important fuctions assinged to the proposed organisation:

1. Granting lines of credit to governments, financial institution and other suitable organisations in foreign countries to enable persons outside India to import from India goods including turn-key projects, civil construction contracts and other services including consultancy services.

2. Handling transactions where a mix of government credit and commercial credit for exports is involved.

3. Issuing bid bonds and guarantees and other similar facilities in India or abroad solely or jointly with commercial banks on behalf of persons exporting or intending to export from Indian goods including turn-key projects, civil contracts and or other contracts and services including Consultancy services.

4. Purchasing, discounting and negotitaing export bills;

5. Selling or discounting export bills in international market.

6. Discounting of export bills negotiated or purchased by a scheduled bank, or financial institution notified by government or granting

---

* Dr. B. L. Mathur is Assistant Professor, Department of Economic Administration and Financial Management, University of Rajasthan, JAIPUR.

The author express his deep sense of gratitude to Professor C. R. Kothari whose long experience in International Finance this article could gain.

loans and advances against such bills.

7, Granting loans and advances to scheduled bank or financial institutions notified by the government by way of refinance of loans and advances granted by it an exporter of goods including turn-key projects, civil constructions contracts including consultancy services.

8. Granting loans and advances or issuing guarantees solely or jointly with a commercial bank for import of goods or services from broad.

9, Granting loans and advances to a scheduled bank or a financial instituion notified by the government by way of re-finance of loans and advances granted by it for importing goods or services to India.

10. Issuing confirmation endorsing letters of credit on behalf of exporters in India, negotiating, collecting bills under letters of credit, opening of letters of credit on behalf of importers of goods or services negotiating documents received thereunder.

11. Maintaining of foreign currency accounts with banks and correspondents abroad for purpose concerned with the business of export-import bank.

12. Buying and selling of foreign exchange and undertaking such other functions of an authorised dealer as may be necessary for the discharge of functions of an export-import bank.

13. Undertaking and financing of research, surveys and techno-economic studies in connection with promotion and development of international trade.

14. Providing technical, administrative and financial assistance to any exporter in India or any other persons who intends to export goods from India for promotion, management or expansion of any industry with a view to developing international trade.

As has been mentioned in the list of objectives, the type of exports to be underwritten by the new bank is that of construction exports, deffered payment exports and turn-key projects for which the commercial banks are not eqpuiped to provide finance as it called for large resources. The Industrial Development Bank of India (IDBI) had done considerable work in this area but it would be unfair to ask IDBI to undertake both industrial development within and also outside the country,

Thus, the task of boosting exports should be taken out of the hands of IDBI and given to the new bank by making it quite independent of all other institutions. As an apex bank, it should provide facilities to exporters all over the country and even use the facilities available with the Commercial Banks and term-lending institutions for furthering the cause of exports. The Commercial Banks are quite adept at providing short-term finance for export by way of pre-shipment and post-shipment credit. The credit guarantee for export is being provided by the Export Credit and Guarantee Corporation (ECGC) and this activity should be kept with the Corporation and not given to the new bank.

The bank will be a government owned, statutory corporation with a paid up capital of Rs. 50 crores to begin with (its authorised Capital of Rs. 200 crores may be stepped up to Rs. 500 crores) supplemented by an initial government loan of Rs. 20 crores. It will also have power to borrow from the Reserve Bank of India, accept deposits from the public and resort to market borrowings. It will also be permitted to borrow funds abroad. The mix of sources from which the Exim Bank will garner resources will ensure that the average cost of its resources will be less than the prevailing market rates. This, together with the tax exemption that will be granted will enable the Bank to extend soft loans.

Exim Banks' resources are far from massive. IDBI's outstanding export finance disbursed as on June 30, 1980 including disbursals of Rs. 33 crore during 1979-80, amounted to only Rs. 116 crore of export refinance, credit Rs. 14 crore of overseas buyers' investment finance of less than Rs. 1 crore. It will be seen from this that international financing from India, such as it is, does not really need an elaborate financial set-up. It may be argued that in the coming years, massive business could be developed and this would need institutional back-up.

Exim Bank will borrow resources abroad. This will certainly develop into an important activity. A number of Indian projects need imported resources. But the question is: what are the precise areas of development for which foreign credits are to be tapped? Currently, a simplistic approach is being adopted to this question. Export orientation is sought to be imported through such policies as duty exemption. This in fact, does not take care of the problem of the high cost of production. The issue actually is one of boosting the nation's GNP growth through investment in activities which will yield the highest social benefit and will ensure international competitiveness for the country's products.

In other words, both export development and import rationalisation should form part of meaningful development strategy. The rub lies in the gloom cast by protectionism over the growth of international trade. This does not mean that a soft approach should be adopted to export growth. There are opportunities for export development, for development of inter-regional trade for foreign borrowings for development and so forth. But these opportunities have to be seigned in term of a clear cut development strategy.

It is clear that the Exim Bank will have to serve as an export development bank and not just a financing body. Its structure and pattern will have to be adjusted to this goal. The modalities of such an arrangement were spelt out clearly in the Report of the Export-Import Bank Committee set up by the commerce ministry in 1975 with Mr. B.D. Kumar as Chairman. One of the important functions prescribed for such an institution is the setting up of an information system on overseas markets, products and credit. At present, the information gap is still wide for project exports. How will a finance agency approve a bid bond quickly unless it has all the relevant information ready at hand? The IDBI has been following a policy of trial and error so far in regard to tenders, with whatever information it could gather. But this is not the right approach to follow. There must be a planned and systematic export drive. To be effective, the Exim Bank has to set its priorities right.

Urban Co-operative Banks: Their Growth and Problems

By B. L. VAISHNAV*

Urban Cooperative Banks, popularly known as "Urban Banks" are basically cooperative credit societies. These banks are engaged in rendering banking services just as any other small commercial bank, but the main difference between the two is that the banking business done by urban banks is on cooperative principles and their area of operation is usually confined to a town or a metropolitan city. The area of urban banks is sometimes extended to a district or a whole state or even beyond the state, in exceptional cases, with the prior permission of the concerned authorities.

Till social control and subsequent nationalisation of 14 major commercial banks in 1969, the urban cooperative banks were the only institutions which were mainly serving the interests of the middle class and economically weaker sections of the society. They were helping their cause by providing financial assistance as visualised by the founding fathers of the urban cooperative banking movement. Even though 95 per cent of the banking activities is presently in the public sector, the urban banks have been able to make an impact on the public as their constitution differs widely from those of the commercial banks and as they render more personalised services to them. Even in metropolitan centres, urban banks having their offices in localities where the population is predominantly working class, have in many cases built up a very good image and fared much better than the branches of the commercial banks in those localities. This is due to the fact that the urban banks are more easily accessible to this class of people.

The urban credit movement in India has its beginning in the year 1989 when Shri Vithal Laxman Karathekar of Baroda founded the Anyonya Sahkari Mandal. With the conferment of the legal status under the Cooperative Credit Societies Act of 1904 the first Urban Credit Society was registered in October 1904, at Kanjeevaram, in the eorstwhile Madras Province. New cooperative credit societies came up afterwards. The development of these societies received attention when the Maclagan Committee referred to the potentialities for the organisation of such societies, especially in urban localities, to meet the requirement of the middle class.

Thereafter, many credit cooperative societies were organised mostly in errstwhile Bombay and Madras Provinces during the period 1919 to 1938. Later during the period 1939–1945 there was a rapid growth not only in the number of banks but also in their activities. Artisans, small business men and small traders looked to these banks for financial assistance. A number of Committees, such as Cooperative Planning Committee 1946, the Study Group on Credit Cooperatives in the Non-Agricultural Sector 1963 and the Working Group on Industrial Finance through Cooperative Banks 1967, that had gone into the working of urban cooperative banks and allied matters have recognised the usefulness of these banks.

The Banking Companies Act, 1949, which came into force from March 16, 1949, had specifically excluded the urban banks from the purview of the Act, as cooperative banks were registered under the Cooperative Societies Act of the respective states and as such could not be classified as "companies". However, when the operations of the cooperative banks increased substantially, it was considered anomalous to leave out the cooperative banks from the purview of the statutory control of the Reserve Bank. Consequently certain provisions of the Banking Regulation Act, 1949, have been extended to the co-operativs banks from March, 1966. In 1971, the deposit insurance cover was also extended to the deposits of the cooperative banks. Now the working of cooperative banks is regulated by the Reserve Bank and the Cooperative Department.

Cooperation being a subject under the purview of State legislatures in the Constitution, control of the department of cooperation is exercised through the Registrar of Cooperative Societies and the position cannot be improved unless the subject is included in the Concurrent List of Subjects. This is a politically difficult proposition. Being in the Cooperative Sector, the urban banks enjoy certain benefits such as lower stamp duty, exemption from income tax in respect of their income from business, lower statutory liquidity requirements, machinery of cooperative courts for the disposal of their litigation and machinery of revenue authorities for collection of their dues and so on.

But before coming to the disadvantages suffered by them, let us understand their place in the total banking scene. The nuber of urban banks, which stood at 403 as on March 1, 1966, increased to 1206 by the end of June, 1978. In States like Gujarat and Maharashtra, more than 80 per cent of the towns and cities were covered by the offices of the urban cooperative banks. The paid up share capital of the banks increased from 41 crores as on June 30, 1967 to Rs. 78.25 crores as on June 30, 1978, i. e., by 90 per cent. The increase in the share capital was mostly due to the increase in the average membership from 3,250 to 4,100 per bank bank and to the linking in the ratio of 2.5 per cent to 10 per cent of the member share holdings to borrowings. The owned funds comprising both of share capital and and the reserves aggregating Rs. 142 crores formed 16 per cent of the working capital and 23 per cent deposits of the urban banks as on June 30, 1980. The deposits of urban banks increased from Rs. 135 crores as on June 30, 1967 to Rs. 627 crores as on June 30, 1978, recording a rise of over 300 per cent during the period. The outstanding loans and advances of the banks rose from Rs. 167 crores as on June 30, 1967 to Rs. 497 crores as on June 30, 1978. Among the various existing urban banks, a few urban banks are as big or even bigger than some of the small commercial banks. Some are of medium size and some are so small as not to be viable. The following Table gives a clear picture of the financial resources of urban banks as on 30th June, 1977.

---

* The author is Research Scholar, Faculty of Commerce, University of Jodhpur, Jodhpur-342003.

TABLE

No. of Banks	Working Capital
40	Below Rs. 5 lakhs
107	Rs. 5 and 10 lakhs
313	Rs. 10 and 25 lakhs
251	Rs. 25 and 50 lakhs
175	Rs. 50 and 100 lakhs
142	Rs. 100 and 500 lakhs
14	above Rs. 500 lakhs

Source: Report of the Committee on Urban Cooperative Banks)

The unit of account, be it deposit or advance, is small in the case of urban banks. They do not depend on higher financing agencies for resources. They raise their own resources from share capital and deposits. They have first hand knowledge of the local conditions and local people as the Committee members/Officers are in close touch with their members. Advances for production are very small (advances to small scale industries and artisans amounted to 7 per cent as on June 30, 1977). Advances for consumption purposes, such as expenses of education, marriage and other ceremonies, housing and clean advances and advances against sureties predominate the advances portfolio. They pay 1 per cent interest in excess of what commercial banks pay on their deposits. Their deposits upto Rs. 30,000 are insured.

The growth of urban banks in Maharashtra was more impessive. The number of urban banks which stood at 84 as on March 1, 1966 had increased to 331 by June 30, 1979, which had a membership of 11.77 lakhs and share capital and reserves of well over Rs. 6,000 lakhs as on that day. The total deposits of the banks were about Rs. 40,000 lakhs as on June 30, 1979 and their working capital was about Rs. 49,000 lakhs. The loans and advances of these banks stood at Rs. 25,500 lakhs. About 40 per cent of the banks had each deposits of Rs. 50 lakhs and over of which the number of banks with deposits exceeding Rs. 2 crores was 39 or 12 per cent of the total.

Another State which recorded impressive growth in the Urban cooperative banking is Gujarat. As on June 30, 1979, there were 253 urban banks in that State with 136 branches. The paid up share capital amounted to Rs. 17 crores. reserves to Rs. 20 crores, deposits to Rs. 229 crores and advances to Rs. 164 crores. There were 8 lakh members, 13 lakh depositors and 2.5 lakh borrowing members. The number of banks with deposits exceeding Rs. 2 crores stood at 21.

There is one more principal characteristic feature of the urban banks and it is that they serve mostly the common man and provide even very small loans of Rs. 100, thus freeing the very poor members from the clutches of the money lenders. The urban cooperative banks have issued loans below Rs. 5,000 to over 19.41 lakhs borrowers during 1977–78.

Not only the urban cooperative banks provided small loans but they have simultaneously diversified their loan portfolio with a stress to provide more loans for productive purposes. Out of the total loans of Rs. 600 crores issued by the urban cooperative banks during 1977-78, the loans issued to small scale industries amounted to Rs. 60 crores and those to agricultural and allied purposes to Rs. 12 crores.

It is known that the credit to small industry by the larger banks is siphoned off by the larger units which are the major buyers of items produced by the small sector. Without appropriate backing from the big banks, the small urban cooperative banks would be drawn into a one-way street. A related issue that arises is the precise functions urban cooperative banks now fulfil. It is true that about half of the borrowers of urban cooperative banks get loans of upto Rs. 500, but their total share in urban cooperative bank credit is close to just 12 per cent. Such small loans go to finance not only ceremonial expenditure but also perhaps to meet the gap between low wages and the rising cost of living.

The middle classes of course draw larger amounts for purposes ranging from housing to purchases of consumer durables and shares. Given the pattern of income distribution and the milieu which has rapidly transformed TV sets, refrigerators, cars and so forth into 'needs', it is but natural that consumption loans would tend to grow.

One more important area covered by the urban cooperative banks is transport. The financial assistance provided by the urban cooperative banks, particularly in cities like Bombay, enabled a large number of persons to own vehicles, find employment for themselves and for a large number of their dependents. In Maharashtra, the urban cooperative banks, in cooperation with the Maharashtra Small Scale Industrial Development Corporation, have been financing the schemes for self-employed persons. Many operators of taxis, autorickshaws and sponsors of small industries have been able to own their own vehicles/set up their own industrial units due to the financial help from the urban cooperative banks.

In cities like Bombay, Poona and Sangli separate banks have been established for women. These banks provide small loans to their members to enable them to acquire sewing machines and to start home industries. Most of the banks have formulated special schemes to provide financial assistance at different rates of interest not exceeding 4 per cent to small artisans, cobblers and others engaged in village industries so that, they can free themselves from the clutches of money lenders and secure maximum benefit for themselves. Some of the urban co operative banks have been providing assistance for securing accommodation and for enabling the slum dwellers to own their rooms in *pucca* building.

The image of the urban cooperatve bank needs much to be improved as its operational efficiency is low. Operational efficiency of a bank depends on the adequacy of staff and the complement of properly trained staff for carrying out the various functions relating to banking service. But to engage qualified and experienced staff, higher scales of pay are required (which, in turn, presuppose higher profitability of operations) which an average urban bank can ill afford. Such is the vicious circle in which many urban banks are caught.

There are no proper training facilities for the employees of urban banks. Federations and associations of urban banks must take steps for providing training facilities. Urban banks, in turn, should engage adequate staff on a planned basis so that new employees can undergo training suited to the job they are required to handle. A progressive, well managed bank always requires a higher complement of trained employees of all cadres to keep pace with the growth in the business and to undertake new service and responsibilities. A manual of instructions regarding the procedures and forms adopted by the bank is absent in many an urban bank. This results in irregularities. The adoption of an up to date manual of instructions is a sine-qua-non of progressive management in a bank.

There are a few more problems faced by the urban banks. They are: (1) Cheques issued by primary cooperative banks are not accepted by Indian Oil Corporation and rubber tyre companies. Similarly, guarantees issued by the urban banks are not accepted by government and semi-government bodies. (2) Credit insurance cover of the Deposit Insurance and Credit Guarantee Corporation is not made available to the urban bank in respect of advances to small borrowers and for the self-employed. Thirdly, the ceiling on maximum advance to a single party at 5 per cent of demand and time liabilities or Rs. 15 lakhs whichever is less militates against mobilisation of advances and it is just possible that the parties who have been nurtured by the bank are likely to transfer their accounts to commercial banks. Fourthly, Rediscounting facilities are not available from the IDBI in respect of deferred payment bills and under the new bill market scheme. Fifthly, overdraft facility with the Reserve Bank of India against government securities to primary cooperative banks which are members of the clearing house in the absence of suitable provision in the R. B. I. Act is not available. Sixthly, linking of share-holding to borrowing stipulated under the directive of the RBI militates against mobilisation of advances as there is no such linkage applicable in the case of commercial banks. On the other hand, this linkage is unusually high in the case of primary cooperative banks which have an adequate owned funds base of over say 5 per cent as against less than 1 per cent in the case of commercial banks.

All in all, it can be said that urban cooperative banks are rendering useful service to the people in their areas of operation. But the banks are unevenly distributed. It is the duty of the associations, federations and social workers and cooperators to take the lead in organising credit societies in various urban areas where there are no urban banks and then develop them into viable units, so that they can be converted into urban banks.

OPERATIONAL FEATURES OF EXPORT CREDIT GUARANTEE IDENTIFIED

A intergovernmental group of experts on January 22 concluded two weeks of discussion by identifying some of the important operational features of a proposed International Export Credit Guarantee Facility. The facility's primary function would be to guarantee negotiable export paper with maturities of six months or more arising from exports of developing countries financed on credit. Among the features of the proposed facility, which "it was generally felt" were important, were: the guarantee by the facility should represent its unconditional obligation to pay immediately the holder of the guaranteed paper the amount due if the drawee or the acceptor has not honoured the paper on presentation by the holder upon maturity.

The national agency of the exporting country should unconditionally guarantee to reimburse the facility on recourse. The evaluation of the credit-worthiness of individual transactions should be undertaken both by the national agency and by the facility. The facility should have a wide variety of information at its disposal, possibly including that exchanged in the Berne Union. The facility should also undertake evaluation of the importing and exporting countries' creditworthiness.

The facility may impose limits by exporting or importing country, by exporter, importer or financing bank, by transaction or by export credit paper or on any other basis that may be called for by the sound economic management of its resources.

The facility, should have an adequate capital base. Because of the nature of the facility, outstanding liabilities could be a multiple of subscribed capital. The relationship between the facility's paid-in and callable capital and between its liabilities and total subscribed capital and reserves should be such as to enhance its standing in international capital markets. Capital and other contributions to the facility should be in freely convertible currencies.

The facility's income should be derived from the fees associated with the provision of its guarantees and income from its investments. The basis for charging fees and the structure of such fees should reflect the fact that the facility should reach the self-financing stage as quickly as possible. In the final plenary session of the meeting, in which representatives of 64 countries participated, the experts also pinpointed issues requiring further study such as the possible establishment of objective technical criteria for eligibility.

Off-shore Banking and its Prospects: A View from India

By A. RAGHURAMA *

INDIAN commercial banks, by extending their branches abroad, can pave the way for the economic development of the country. From this point of view, the following factors need to be taken note of:

1. Foreign exchange reserve comes to the rescue of any country during a period of crisis. Foreign exchange reserves can be acquired by extending the branches of Indian commercial banks abroad.

2. As a result of the expansion of Indian Bank branches abroad good relationship can be developed among our trading partners.

3. Commercial banks, by opening more branches abroad, can facilitate the development of trade with other countries.

4. The efforts of Indian Entrepreneurs to undertake joint ventures/collaborations in foreign countries can be encouraged by extending branches of Indian commercial banks abroad.

5. Exchange of currency and money transfer to and from India can easily be facilitated by expanding the branches of our commercial banks abroad.

6. Too much concentration and cut-throat competition of Indian commercial banks within the economy can be curbed considerably by concentrating their efforts in the foreign field. This in turn would help the internal branches of commercial banks to function more efficiently and effectively.

7. Besides this, our commercial banks can render their valuable service to Indian residents abroad as well as to the foreigners.

On July 19, 1969 when 14 major commercial banks in India were nationalised, 7 banks had 56 branches abroad with a total deposit of Rs. 157.52 crores. The position gradually improved and in 1979, the 11 banks having 127 branches abroad had total deposits of Rs. 1,572.28 crores. In June 1981, 12 Indian banks had 135 branches abroad.

INDIAN BANKS ABROAD: JUNE 1981

Bank	No. of Branches ‡
Bank of Baroda	58
Bank of India	23
Bharat Overseas Bank	1
Central Bank of India	3
Indian Bank	3
Indian Overseas Bank	11
Punjab and Sind Bank	1
Punjab National Bank	3
State Bank of India	21
Syndicate Bank	1
Union Bank of India	1
United Commercial Bank	9
TOTAL :	135

‡ Excludes representative Offices.

Bank of Baroda tops the list having 58 branches abroad whereas Bharat Overseas Bank, Punjab and Sind Bank, Syndicate Bank rank lowest having one branch each. The number of branches of Indian banks abroad declined in the year 1973 on account of nationalisation of banks in Burma and Aden and conversion of Indian commercial bank branches in to subsidiary concerns in Uganda and Nigeria. Even among the nationalised banks, only 12 banks have opened 135 branches in 26 countries. Since nationalisation, private banks never opened their branches abroad. A third (44) of the branches of Indian banks abroad are opened in U.K. only on account of the open entry system and liberal license policy followed by the British Government.

Bank of India and Bank of Baroda have one each non-operational branches in Narayanganj, (Bangladesh) and in Karachi (Pakistan) respectively. This type of branches only adds to the cost of operation and to the number of foreign branches but not to the profitability of commercial banks. A peaculiar feature of our banks is that they have concentrated in places abroad where Indians are large in number. The reason for this is the acute competition offered by the foreign banks and the low capital of Indian commercial banks to withstand the competition. Yet another reason is that the Indian commercial banks find it easy and profitable to mobilise deposits almost exclusively from Indian residents abroad.

In the light of the increasing importance of Indian commercial

INDIAN BANKS ABROAD: COUNTRY-WISE BREAKDOWN

Countries	No. of Branches	Countries	No. of Branches
Bahamas	2	Maldives	1
Bahrain	2	Oman	3
Bangladesh	2	Mauritius	6
Belgium	1	Pakistan	1
Cayman Islands	1	Panama	1
Channel Islands	1	Seychelles	1
Fiji Islands	10	Singapore	7
France	2	Sri Lanka	6
Guyana	2	Thailand	1
Hong Kong	14	United Arab Emirates	8
Japan	3	United Kingdom	44
Kenya	9	United States	5
Korea	1	West Germany	1
TOTAL			135

---

* Mr. A. Raghurama is Lecturer, Department of Post-Graduate Commerce and Research, Mangalore University, Mangalagangotri, D.K. - 574 152.

banks abroad, the following suggestions could be considered for improving their coverage and profitability.

1. Commercial banks have better prospects of earning profits abroad than within the economy. Therefore, it is necessary for our banks to follow the British example. As observed by Mr. Manubhai Shah, 'A perusal of the history of some of the British Commercial banks shows how these ventured during the 19th century into distant and unfamiliar lands in search of projects and assisted British trade greatly in the process. They went to India, South-East Asia and China, Africa and South America. Venturesomeness of that kind is necessary on the part of Indian Banks today'.

2. It is necessary for our banks to extend their branches in developed countries too. In this way, they can not only promote India's exports but also can get the basic inputs (capital, technical know-how, managerial-skill, etc.) necessary to stimulate developmental activities in the home country.

3. Indian banks, instead of concentrating too much in areas of Indian residents abroad, must expand their branches in other parts too.

4. The capital–base of Indian banks is very low when compared to the foreign banks. As a matter of fact, while opening branches abroad they are unable to withstand the severe competition from the foreign banks. There is need for increasing the capital of our banks. Sufficient amount must be ear-marked for this purpose by the Indian Government.

5. Our commercial banks have better potential in the Middle Eastern countries where oil is the main exporting item. None of the Indian banks have opened their branches in these countries except the State Bank of India and the Bank of Baroda. By expanding their branches in these countries, our banks can earn Petro-dollars.

---

100 Years of Post Office Savings Bank

ON April 1, 1982, the Post Office Savings Bank completes one hundred years. People all over the country are familiar with the Post Office Savings Bank, but what is generally not known is the fact that the Post Office Savings Bank had a predecessor in the Government Savings Bank. The Government Savings Bank took shape in 1833 in the form of Presidency Banks, and a number of District Savings Banks instituted in 1870. These Savings Banks continued to exist for a few years. It was on of April 1, 1882, that these savings banks passed into the post office organisation as existing at that time. Where there were only 180 savings banks before, the number rose to 4238 by the end of the first year of this change over. At the end of the first year, there were just 39,000 depositors with accounts in the Post Office Savings Bank. The total deposits at that time were Rs. 28 lakhs.

What brought the Government Savings Bank to the Post Office was the realisation that the post office network offered an admirable instrument for the execution of any scheme which involved a widespread agency throughout the country. The objective of the Post Office Savings Bank was to promote thrift among the common people for whom commercial banking methods were too sophisticated, and for whom commercial banks were beyond physical reach.

The impact of the Savings Bank coming to the post office has been striking throughout the last hundred years. Presently the Post Office Savings Bank has one lakh and forty thousand branches all over the length and breadth of the country. Out of these, one lakh and twentyfive thousand are located in the rural areas. This network cannot be matched by all the public and private sector banks in the country put together.

The Post Office Savings Bank completed one hundred years on April 1, 1982. This article is issued in connection with the centenary celebration.

The total number of accounts operated upon in the Post Office Savings Bank are over five crores, an amazing figure for the common man's bank. The total deposits held in all types of schemes in the Post Office Savings Bank are now almost of the order of Rupees nine thousand crores. The consistent and phenomenal growth has been built up on the cumulative trust of the people.

Today, the aggregate deposits in the Post Office Savings Bank account for 23 per cent of the total deposits in the whole Government sector of banking. This is very close to the share of the Japanese Postal Savings Bank which is the world's largest single holder of private savings. The factors which have enabled the Post Office Savings Bank in India to secure this lead are the incomparably vast spread of the Post Office Savings Banks and their nearness to the people both by distance and by familiarity. These are factors which have taken the postal bank anywhere in the world on the path of success. Compared to advanced countries, these factors are markedly more relevant in India where the commercial banks are yet to penetrate in a big way into the rural areas. The fact that the Post Office Savings Bank caters mainly to the common people is evidenced by the average post office savings bank deposit which is currently about Rs. 600.

The Post Office Savings Bank runs as many as four schemes within the framework of the Government Savings Bank Act, 1873: ordinary savings accounts accepting deposits upto Rs. 25,000/- in single accounts and Rs. 50,000/- in joint accounts, with unrestricted facility of withdrawal; 10–Year Cumulative Time Deposits and 5–Year Recurring Deposits which are long-term investments of a fixed amount every month repaid in lump at the end of the term;

Time Deposits which are long-term investments paying interest annually and repaying the deposit at the end of the term. It runs within the framework of the Government Savings Certificates. Also, it operates the Public Provident Fund scheme concurrently with the State Bank of India and its subsidiaries.

Different schemes are necessitated, to suit diverse interests; small investors, big investors, short-term investors, long–term investors, tax payers and the like. This variety is a development from 1959; till then Post Office Savings Bank was a limited investment system with only ordinary Savings accounts accepting deposits up to Rs. 15,000/- in a single account. The growth in these twenty-three years has been markedly great.

The Post Office Savings Bank is different from commercial banks in many ways and, strictly speaking, is not in competition with them. Its range of clientele is different and its schemes are woven around the interests of that range. Yet, operational facilities are, by and large, apace with those in commercial banks.

The Post Office Savings Bank has been ever alive to the necessity of modernising itself and of simplifying its procedures with a view to making its services more acceptable to all sections of the people. Today the Post Office Savings Bank provides the facility of deposits and withdrawals by cheques as in commercial banks through all Departmental Post Offices. The facility of nomination for all kinds of accounts and Savings Certificates has been made available under which a depositor can nominate a person to receive payment of the deposits in the event of death without legal formalities. The instant counter service is operating on the lines of the teller system in commercial banks for instant withdrawal transactions upto the limit of Rs. 300. This facility is presently available in about 10,000 post offices. All the village Branch Post Offices now have the power to permit withdrawals upto Rs. 250/- without reference to the controlling Head or Sub-Post Office.

With a view to facilitating the identification of depositors particularly illiterate depositors who are allowed to operate on their accounts on the strength of their thumb impressions, the Post Office Savings Bank has introduced identity cards which are supplied free of cost to the rural depositors. Identification of depositors is also now permissible on the strength of passports, driving licences, Railway season tickets etc. where the depositor's photograph and signature are available.

The Central and State Governments have both come to rely upon the Post Office Savings Bank for the generation of sizeable resources for the country's development Plans. The Five Year Plans are being funded to the extent of 5 per cent from the deposits in the Post Office Savings Bank. In the year 1981-82, deposits in the Post Office Savings Bank are estimated to have grown by 18 per cent. The future of the Post Office Savings Bank cannot but be bright, what with the ordinary man's keenness to save for his future and the schemes themselves catering to a wide variety of purposes and, above all, an incomparably large network of offices operating the schemes. The 100 years have not been in vain. As the POSB enters its second century, one may hope for more promising years ahead.

FOOD IMPORTS CAUSE MAJOR DRAIN ON DEVELOPING NATION'S EARNINGS

During the late 1970s, the third world spent almost $ 1 billion a year more than was necessary on food imports. In fact, Bangladesh, Sri Lanka and India used far more of their export earnings for imported food than did developing countries in other parts of the world. With food imports due to rise substantially by 1985, the need for economy has assumed new urgency. Economy could be achieved in many ways. Bulk purchasing and shipment reduce cost per unit. Forward contracts reduce dependence on spot purchases, which inadvertently are very expansive.

Such contracts will, at the same time, assure countries of supplies. Common import plans, joint tendering between countries and availability of up-to-date information on freight costs, production and consumption needs will also help reduce excessive food and fertilizer import bills. Moreover, countries should increasingly look for supplies within the region as many of them are emerging as exporters, at least in some years.

To help minimise unnecessary expenditure and build the management muscles of Asia-Pacific countries, it has been suggested that they look into the possibility of setting up a regional food and input trade information and management network. The network will provide daily information on prices, freight costs, production and consumption levels, necessary for the decision makers. It will train officials to improve their management capabilities as well as to work out possibilities for management of joint food and fertilizer imports.

The suggestion is embodied in a special study to be tabled at the thirty-eighth annual session of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) to be held in Bangkok later this month. Managing the regional network is foreseen as one of the functions of an Asia-Pacific food proposed in the study. It sets out a number of actions that could be undertaken jointly by countries—developed and developing alike—under the umbrella of the bank, for enhanced food security in this region.

CITICORP TRAVEL CHEQUES

To provide tourists and foreign travellers in India, who are eligible to purchase foreign exchange, Union Bank of India now offers through its select branches in India Citicorp Travellers Cheques. The agreement for sale of the same by Union Bank under a special participation agreement was recently signed by Mr. R. R. Kumar, Chairman and Managing Director of Union Bank of India and Mr. V. J. Menezes, Chief Executive of Citibank, India. At present, these Citicorp Travellers Cheques are sold worldwide through more than 45,000 locations and in over 150 countries.

Slow-Down in International Bank lending

By K. BURKE DILLON*

THE underlying expansion in international bank lending slowed markedly in the first half of 1981 when compared with the same period last year, according to the data provided in the quarterly press release of the Bank for international Settlement (BIS). This slowdown resulted primarily from a considerably reduced demand for funds by industrial countries.

After adjusting for exchange rate changes and excluding redepositing among banks in the BIS reporting area, banks' outstanding external claims increased by $ 65 billion in the first half of 1981, $ 15 billion less than the expansion in the first six months of 1980. All of this decline was accounted for by reduced lending within the reporting area itself, as the $ 23 billion increase in claims on all other borrowers was similar to that recorded in the first half of last year. (The reporting area for the international banking statistics compiled by the BIS comprises the Group of 10 countries and Austria, Denmark, Ireland, Siwtzerland, and branches of U. S. banks in the Caribbean and the Far East).

The expansion in bank lending was matched by an increase in deposits from within the reporting area of similar magnitude, the deposit totals for the rest of the world changing little on balance. Deposits by members of the Organization of Petroleum Exporting Countries (OPEC) increased by only $ 5 billion in the first quarter and by less than $ 2 billion in the second, compared with $ 25 billion the first half of 1980. Thus, the second phase of recycling of oil surpluses appears to have drawn to a close by mid–1981.

Measured in terms of current U. S. dollars, total external claims rose by only $ 25 billion during the first half of 1980 to $ 1,347 billion, while external claims net of redepositing among reporting area banks increased by $ 15 billion to $ 825 billion.

However, due to the wide variations in the value of the dollar vis-a-vis other major currencies during recent years, changes in outstanding stocks measured in current U. S. dollars do not provide a reliable indicator of international banking flows. Therefore, unless otherwise indicated, all flow numbers in the text of this article are based on changes in stocks as computed by the BIS using constant end-of-period exchange rates. Since such valuation-adjusted data for individual countries are not published by the BIS, the country classifications used in the text are those used by the BIS (i.e., the reporting area, other developed countries, Eastern Europe, OPEC, and non-oil developing countries.)

The growth in total external claims of banks in the reporting area of $ 93 billion in the first half of 1981 was similar to the expansion in the same period a year ago. However, unlike the developments in the first two quarters of 1980, there was a significant slowdown between the first quarter ($ 53 billion) and second quarter ($ 40 billion) of 1981. This apparent slow-down was, however, due entirely to a lower volume of new inter-bank redepositing among the reporting area banks. Claims arising from such redepositing increased by only $ 5 billion in the second quarter of 1981, compared with $ 23 billion in the first quarter. The growth of external claims net of such redepositing among the banks increased from $ 30 billion in the first quarter to $ 35 billion in the second, giving a seasonally unadjusted annual growth rate of 18 per cent for the first half as a whole. That was considerably lower than the expansion in the same period a year ago, when the corresponding rate was about 25 per cent.

Although the increase in claims, net of redepositing, was not greatly different in the first and second quarters of 1981, the composition of that lending was very different. During the first three months of the year, $ 23 billion of the increase in claims was with respect to countries within the reporting area itself, while there was an increase of only $ 7 billion in claims outside the area. The corresponding figures for the second quarter were $ 19 billion and $ 16 billion, respectively.

The increase in claims on non-oil developing countries picked up from about $ 5 billion in the first quarter to $ 8.5 billion in the second quarter, and the total increase in claims on these countries over the first half of 1981 was only marginally below that recorded during the corresponding period of each of the past two years. On an annual rate basis, the increase in the first half of 1981 was 15 per cent, compared with 2o per cent for the same period in 1980. Almost all of the increase in claims in the first quarter of 1981 represented new lending to Latin America, but new lending outside that region, in particular to borrowers in Asia, accounted for most of the second quarter acceleration in lending to non-oil developing countries.

The expansion of claims on Eastern Europe also accelerated somewhat from the first to the second quarter and reached $ 2.7 billion for the first six months of the year. At the same time, however, deposits from this region were drawn down by almost $ 5 billion. Data for individual countries are not available on a valuation-adjusted basis, but in current dollar terms, deposits held by the Soviet Union were reduced by almost $ 5 billion, or more than half, during this period. On a claims-minus-deposits basis, Eastern Europe's net recourse to international banking funds reached $ 7.6 billion during thefi rst half of this year, compared with $ 5.8 billion during first half of

---

* International Capital Markets Divisions, IMF Exchange and Trade Relations Department.

1980. Net recourse by developed countries outside the BIS reporting area also ran well ahead of last year, reaching $ 9.5 billion during the first six months of 1981, compared with $ 7.0 billion in the same period of 1980.

During the first quarter of 1981, claims on OPEC countries fell, while OPEC deposits rose by $ 5 billion. In the second quarter, however, deposits from, and claims on, OPEC each increased by about $ 1.5 billion. As a result, the net supply of new funds from OPEC members, which had exceeded $ 25 biliion during the first half of 1980, fell from $ 7.5 billion in the first quarter of this year almost to zero in the second.

The increase in net liabilities to OPEC members had financed almost all of the expansion of about $ 25 billion in the reporting banks' net creditor position *vis-a-vis* other countries outside of the reporting area during the first half of 1980 and half of the $ 15 billion expansion during the first quarter of 1981. In the second quarter of 1981, however, the reporting area itself contributed $ 34 billion while borrowing only $ 19 billion, thus itself financing a $ 15 billion increase in banks' net creditor positions with countries outside the reporting area.

The preceding discussion of changes in banks' claims on, liabilities to, and net positions *vis-a-vis* broad country groupings was based on data which exclude the effects of redepositing by banks in the reporting area. Since the data on such redepositing are available only as a global figure, it is necessary to focus on gross assets and liabilities (i.e., including redepositing) in order to examine the contribution of banks in the various reporting countries to the overall outcome.

As noted above, the growth of banks' gross external claims dropped from $ 53 billion in the first quarter to $ 40 billion in the second, reflecting a sharp decline in the volume of new redepositing among reporting banks. This latter phenomenon largely explains the unseasonal decline in the pace of expansion of external claims of banks in the European reporting area, from almost $ 32 billion in the first quarter to $ 18 billion in the second. The $ 50 billion increase in their claims for the first six months of 1981 was well below that for the first half of 1980 ($ 63 billion).

Banks in the United States, on the other hand, increased their gross claims by significantly more in the first half of 1981 ($ 22 billion) than in the same period last year ($ 16 billion). Moreover, the external claims of offshore branches of U. S. banks in the Caribbean and Far East expanded by over $ 12 billion in the 1981 period, more than three times as much as in the first half of 1980. The increased international lending by U. S. banks and their branches in the 1981 period roughly offset the decline recorded for banks in the European reporting area. Lending by U. S. banks and their offshore branches to non-oil developing countries picked up substantially in the second quarter, after near-stagnation in the first quarter, and U. S. banks extended substantial credit directly to banks in Canada and Japan.

Banks in Japan increased their gross assets substantially ($10 billion) in the first quarter, but reduced them somewhat in the second ($ 3 billion). The pattern for banks in Canada was just the opposite, with external assets declining in the first quarter ($ 1 billion) and the increasing in the second ($ 3 billion).

On a claims-minus-liabilities basis (and still including redepositing transactions), banks in the European reporting countries and banks in the United States were large net exporters of funds in each of the first two quarters of 1981. Among the European reporting countries, banks in the United Kingdom were net exporter (lenders) of funds in both quarters, whereas banks in the Federal Republic of Germany and France were net takers (borrowers) in the first quarter and net suppliers in the second. This pattern was reversed for banks in Japan, which shifted from being modest net lenders to modest net borrowers between the first and second quarters. Banks in Canada were sizable net borrowers in both quarters.

Taken together, banks in the European reporting area were net exporters of funds to the extent of $ 12 billion in the first half of 1981, whereas they were net borrowers to a similar extent in the same a year ago and in the second half of 1980 as well. This $ 24 billion shift in position between the first semesters of the two years reflects a very harp slowdown in the pace of external liability accumulation in the latter period. External laibilities increased by only $ 37 billion in the first half of 1981, compared with about $ 75 billion in the first six months of 1980. This relative decline was much greater than the $ 13 billion decline in the pace of external asset accumulation beween the two periods.

Banks in the United States were substantial net exporters of funds in each of the five quarters through June 1981, increasing their external net creditor position by $ 56 billion over that period. The growth of these banks' external claims, which had averaged more than $ 14 billion over the final three quarters of 1980, fell to $ 7 billion in the first quarter of this year and then rose to $15 billion in the second quarter. The first quarter slowdown in the growth of external assets was, however, accompanied by a $6 billion absolute decline in the external liabilities of banks in the United States, as short-term U.S. interest rates fell by about 500 basic points over the quarter. In the second quarter, external liabilities increased by $ 8 billion as U.S. interest rates rose again. Liabilities *vis-a-vis* affiliated banks abroad accounted for all this increase. On a net basis, therefore, banks in the United States increased their net creditor position by almost $13 billion in the first quarter and $8 billion in the second.

Partly reflecting operations geared to the end of their business year in March, banks in Japan increased significantly both their external assets ($ 10 billion) and liabilities ($ 8 billion) during the first quarter of 1981, but during the following quarter, these positions were unwound. The net external debtor position of these banks increased by $1.5 billion over the first half of the year.

The external liabilities of banks in Canada rose by $13 billion during the first half of 1981, an increase of one third. External assets, however, increased only marginally, and the banks' net debtor position rose by 12 billion dollar to a level of almost 20 billion dollar. These developments reflected a sharp expansion in foreign currency lending to Canadian residents much of it in connection with takeover activity, particularly in the energy sector—and an equally marked decline in resident foreign currency deposits following the coming into force of reserve requirements on such deposits.

Preliminary data for the third quarter of 1981 indicate that total bank claims, including redepositing, continued to expand at about the same pace as in the first half of the year. Therefore, unless the relative importance of redepositing decline again in the third quarter, it is likely that the underlying expansion in international bank credit slowed somewhat further. Information on publicized credit commitments in the Euromarkets, however, suggests a sharp increase since mid-year.

In the five months through November, such commitments reached 54 billion dollar, compared with 28 billion dollar during the same period of 1980 and with 33 billion dollar in the first half of 1981. To a great extent, however, this very high level of commitments reflects large credits arranged during July for U.S. corporations seeking either to finance or to defend themselves against takeover proposals. Commitments of industrial country borrowers reached almost 30 billion dollar in July alone, and the questions of when and to what extent these lines will actually be drawn down cloud any near-term forecast of international banking activity.

Commitments to developing countries, other than the major oil exporters, have also picked up noticeably. During the five months through November, such commitments were running at a monthly rate 21 per cent higher than that recorded in the corresponding period of 1980. This was, however, partly offset by lower commitments to oil exporters. — *IMF Survey, December 14, 1981.*

Origin and Development of Arab Banks: Survey of their Present Operations

By ALEXANDER E. FLEMING*

SINCE the second major oil price increase of 1979–80, concrern has been expressed as to whether funds from the surplus oil exporting countries can be recycled smoothly and efficiently to those countries that are running persistent deficits. Fears that international banks would be unable, because of binding capital constraints and fully extended country limits, to undertake the intermediary role have in the event, proved unfounded. One reason is that a new group of banks, the Arab banks, has become increasingly active in the international capital markets in the past two years. This article surveys the origins and development of the Arab banks, discusses the nature and location of their banking business, and concludes with an examination of their current and prospective international oprations.

Arab banking has developed in four distinct stages. The first stage includes the colonial period and the period up to the early 1960s when small local banks were established. These banks were chiefly concerned with domestic business and coexisted alongside the traditional money changers. Trade transactions during this period were financed mostly by branches of foreign banks in the Middle East. Indigenous banks such as the National Commercial Bank of Saudi Arabia, the Rafidain Bank of Iraq, and the Arab Bank of Iraq, and the Arab Bank of Jordan, which later grew into sizable domestic banks, were established during this period.

The second stage, covering the 1960s and the early 1970s, was one of great significance. This period was characterized by the emergence of the Arab countries as major participants in world trade and finance seeking to develop their economies and to make fuller use of their resources. The need for baking development was complementary to the other aspects of the development process. In a number of countries, especially the major oil producing countries, national commercial banks were set up, some with large-scale branch banking networks. The National Bank of Kuwait, the National Commercial Bank of Libya, the Qatar National Bank, the Bank of Oman, and the National Bank of Dubai are examples of banks established during this stage. It was in this period that Kuwait and Beirut (Lebanon) emerged as the more developed banking centers in the Arab region. In the poorer Arab countries, on the other hand the environment remained unconducive to the development of a banking system.

The third stage, which lasted from about the time of the first major oil price rise in 1973–74 to the onset of the second in 1979, witnessed a rapid growth of Arab institutions and the setting up of new national money and capital markets. International banking markets evolved in Bahrain and the United Arab Emirates, while Kuwait opened up its capital market for the issuance of foreign bonds denominated in Kuwaite dinars. Furthermore, a new group of Arab banks flourished by setting up joint ventures with Western banks. A number of these joint ventures, which enabled Western banking know-how to be combined with the plentiful supply of capital available to the oil producing

---

* Financial Policy and Analysis Department, World Bank, Washington-DC.

Arab countries, registered strong growth during this period.

Examples of the new joint-venture banks are the Union de Banques Arabes et Francaises and the Banque Arabe et Internationale d'Investis-sement, both based in Paris and both jointly Arab and French owned; the European Arab Bank in Brussels and the Arab Latin American Bank operating out of Peru, both owned by consortia of Arab banks and, respectively, European and Latin American banks; and the Saudi International Bank, based in London, which is half owned by the Saudi Arabian Monetary Agency and half by a group of international banks.

The fourth stage of development — from the second oil price rise of 1979-80 to the present time — was one in which the Arab oil producing countries again accumulated substantial oil revenues. During this period, however, there was a change in attitude on the part of the Arab oil producers toward both the placement of their surplus funds and the development of Arab banking institutions. The enlarged surpluses of investable funds quickened the process of portfolio diversification across countries, currencies, and types of assets. As part of this process, the banking industry itself was seen as a profitable business for investing capital.

This change in attitude has resulted in increased investment in banks, particularly in wholly Arb-owned banks. For instance, in 1980, the capital base of the Bahrain-based Gulf International Bank, which is wholly owned by seven Arab governments. was increased by \$ 160 million to \$ 265 million. In January 1980 a new bank, the Arab Banking Corporation, jointly owned by Kuwait, Libya, and Abu Dhabi, was set up in Bahrain with an authorixed capital of \$1 billion.

Another manifestation of the change in attitude is reflected in the development of the Islamic banking concept. The First Islamic Commercial Bank was set up in Egypt during the 1960s, and others have recently been established in the Middle East and abroad. These banks are run according to Islamic principles. As payment of interest (riba) is forbidden in Islam, the Islamic banks base their business on an alternative form of compensation for depositors. The concept of profit is, by contrast, acceptable, and so these institutions operate along the lines of a mutual fund — that is, the depositor gains the right to a share in the profits of the institution. The most significant recent development in this context has been the establishment in Geneva of a highly capitalized (\$1 billion authorized capital) Islamic bank — Dar-al-Maal al Islami which will undertake international banking operations.

The three main centres of Arab banking are the Middle East, Paris, and London. There is, however, much evidence to suggest that both the older and the newly established banks are actively seeking to expand into other banking centers. Singapore and New York are but two current examples.

International banking activity in the Middle East has been centered in Bahrain and Kuwait. Bahrain developed as an international financial center through the establishment of offshore banking units. Its growth since the mid-1970s however has been slower than expected, although some banks (notably the Gulf international Bank and the Arab Banking Corporation) are now using Bahrain as a base for a strong expansion into international lending. Japanese banks are also openning offshore banking units in Bahrain and seem destined to become a significant banking force in the area. Statistical evidence suggests that offshore banking units have recently grown strongly. In the 12 months ended September 1981, for instance, the total assets and liabilities of offshore bnnking units grew by 38 per cent and at the end of the period amounted to \$ 46.4 billion.

Kuwait established an open capital market in 1970s. At its peak, this market was host to some 15 bond issues denominated in Kuwaiti dinars, worth the equivalent of 440 million dollars. The absence of foreign exchange controls and the existence of ceilings on domestic interest rates, however, made it difficult for the Kuwaiti authorities to maintain the liquidity of the market at times when international interest rates were rising. The result has been the closure of the market from time to time. Kuwaiti institutions — in particular the Arab Company for Trading Securities — have played a leading role in attracting borrowers and maintaining a secondary market. Three other Kuwaiti institutions have also been active in the wider international bond market: the Kuwait investment Company, the Kuwait Foreign Trading, Contracting and Investment Company, and the Kuwait international investment Company.

In Paris there are 35 wholly or partly Arab-owned banks, the large number reflecting the long-standing French-Arab connection, which was cemented further during the late 1960s. Many of the important new banks were set up in Paris late in the second and third stage of Arab banking development. The French authorities are at present limiting access of the smaller Arab banks by requiring that they include a French minority partner. It remains to be seen whether speculation concerning the bank nationalisation policies of President Mitterrand will act as a constraint on the further development of Arab banking business in Paris.

In London, some 29 Arab banks and investment institutions now have offices—about half of which have been set up in the last two and a half years. These institutions were established primarily because of the attractions that London has as a financial centre— a full range of financial services, good communications, and its position as the main centre for Euro-currency activity. These institutions have been involved in trade-related financing, syndicated Eurocurrency lending, and some investment business. Recently, London became the home for the Arab Bankers Association—an international association of bankers set up to foster interest in Arab banking affairs, publish research studies, and organize training courses for Arab bankers.

There are a large number of Arab banks, but many of them are less than ten years old and all of them are small in size compared with Western banks. Of the 50 largest Arab banks, over half of them have been established since

1970. Only 17 Arab banks are included in the list compiled by *The Banker* (June 1981) of the 500 largest banks by size of assets. By way of comparison, Citicorp, the world's largest banking corporation, has assets of some $ 110 billion, a total greater than the sum of the assets of the largest $ 20 Arab banks.

The largest Arab banks are those that were set up in the first stage of Arab banking development; banks from Saudi Arabia, Kuwait, and Algeria are among the largest 20. The banks established in the fourth stage of development have accomplished the fastest rates of growth in assets, however. To cite two examples, the Gulf International Bank has doubled in size in a year (with assets now of over $ 2.9 billion), while the newly created Arab Banking Corporation, which showed assets of $ 1.9 billion in its interim 1980 financial statement, probably now has assets exceeding $ 3 billion. The Arab Latin American Bank and the Saudi International Bank have expanded their business rapidly, while many of the other banks established during the third and fourth stages, although expanding less rapidly, have still grown at rates that Western banks might envy. It is clear that many of these newer Arab banks will move quickly up the list of bank size by assets.

The process of external intermediation of banking business that occured among the banks of North America, Europe, and Japan in the 1970s is clearly taking place in the Arab banking world now. In the first and second stages of Arab banking, activity was almost entirely confined to the domestic market. In these periods, banking services were extended in regions which were, by Western standards, underbanked. Building on their stronger domestic bases, several of these banks—the Rafidain Bank, the National Commercial Bank, and the Arab Bank, for instance—are now playing a growing role in international markets.

The newer banks, founded late in the third stage and in the fourth stage, were oriented toward international business from the outset. Trade financing was one area of growth, but several banks have become established names in the foreign and international bond markets. The newest banks, the Arab Banking Corporation, the Gulf international Bank, and the Saudi International Bank are quickly establishing themselves in the highly visible syndicated Eurocurrency lending market, an area of banking activity that does not require a well-established and highly sophisticated banking structure.

The extent to which the Arab banks are active in the international banking markets can be seen, in part, by the data for participation in syndicated Eurocurrency loans. The volume of loans organized by Arab-led syndicates — which increased gradually during 1978–80 despite some decline in total market activity in 1980 — showed substantial growth in 1981. In that year, about 26.5 per cent of the volume of syndicated lending was arranged by Arab-led syndicates. Arab-led syndicates channeled their lending in roughly equal proportions to the industrial and oil importing developing countries. If, however, attention were focused on the make-up of the entire management group of syndicated loans and not solely on the lead managers, the degree of Arab bank participation in the management groups of loans, for the oil importing developing countries would be somewhat greater than for loans to the industrial countries. Recently, several Arab syndicated loans have taken the form of All-Arab participation, that is, they have been confined to small groups of Arab banks. It should be stressed that syndicated lending is only one part of total international lending, Arab banks would account for a much smaller proportion of the total, as up to now, they generally have not diversified into the full range of international banking activities.

The recent growth of Arab banks has been quite remarkable. The combined capital of the 25 most active Arab banks in the Euromarkets, which amounted to 2.4 billion dollar at the end of 1979 and supported assets worth 51 billion, dollar may well have doubled by the end of 1981.

A number of factors will influence the growth of Arab banks in the future, including capitalization and managerial capacity. Since many of these banks are already highly capitalized, the availability of capital is unlikely to be a constraint in the short term. However, a shortage of skilled banking personnel, particularly staff of Arab origin might limit the pace and nature of the expansion. — *IMF Survey, February 8, 1982.*

GOOD PERFORMANCE OF SBI BANGALORE REGION

The Deposits and Advances of SBI, Bangalore region, at the end of December 1981, are Rs. 254.65 crores and Rs. 294.00 crores respectively. This means that there has been an increase of deposits by 415.9 per cent and advances by 133.11 per cent between December 1975 and December 1981. The priority sector advances have gone up from Rs. 27.25 crores to Rs. 119.93 crores during this period i.e., an increase of 340.1 per cent. The share of priority sector advances to total advances had gone up from 21.6 per cent to 40.8 per cent during this period. We have thus reached the stipulated norm of 40 per cent prescribed by the Government in this regard already to be achieved by the 31st March 1985. The credit deposit ratio in the state at the end of December 1981 is 116.5 per cent and compares favourably with the ratio of our Bank in Tamil Nadu and Kerala.

The Bank has so far assisted 1,30,597 agriculturists to the extent of Rs. 59.44 crores in Karnataka State. The percentage of agricultural advances to total advances is roughly about *20.2 per cent exceeding the norm of 16 per cent prescribed by the Government of India to be reached before the 31st March 1985.* The Bank has adopted 2,724 villages so far under our village adoption scheme. The Bank's assistance to Small Scale Industries at the end of December 1981 is Rs 50.25 crores. Of this, 2055 borrowers belonged to Scheduled Castes/Tribes with outstandings of Rs. 19.42 lakhs. The Bank has also financed 343 units to the extent of Rs. 2.39 crores under our Entrepreneurs Scheme and 12,767 units to the tune of Rs. 1.56 crores to village industries.

TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDC

TIDCO

TAMILNADU INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

L L A BUILDINGS 735 Anna Salai Madras-600 002

ACCEPTS/RENEWS DEPOSITS

1 Year	2 Years	3 Years
10½% p.a.	**11½% p.a.**	**12½% p.a.**

(INTEREST PAID MONTHLY)

On deposits of charitable, educational, scientific research and benevolent institutions an increased rate of ½% is offered subject to production of satisfactory evidence

INTEREST PAID TO CHARITABLE INSTITUTIONS FULLY EXEMPTED FROM INCOME TAX (SECTION 13 OF THE I.T. ACT 1961)

INTEREST PAID TO OTHERS QUALIFIES FOR THE BENEFITS UNDER SEC. 80 L OF THE INCOME TAX ACT 1961 UPTO Rs. 3000/-

APPLICATION FORMS ARE AVAILABLE AT REGISTERED OFFICE

Particulars to be furnished as per Sub rule (2) of Rule (4) of Companies (Acceptance of Deposits) Rules 1975 (as amended) framed under Sec. 58A of the Companies Act 1956.

(A) Name of the Company	Tamil Nadu Industrial Development Corporation Ltd.
(B) Date of incorporation of the Company	21st May 1965.
(C) Business carried on by the Company and its subsidiaries with the details of branches or units	The object of the Company is to promote, improve, establish and develop industrial activities in Tamilnadu through Public Sector and Joint Sector. Units Tamilnadu Steels, Arakkonam, North Arcot District
(D) Brief particulars of the management of the company	The Company is a wholly owned enterprise of Government of Tamilnadu and the management is done by a Board of Directors with the Chairman and the Managing Director controlling the day to day affairs of the company.

(E) Names, addresses and occupation of the Directors

Name of Directors	Occupation and Address
1 Thiru C.V.R. Panikar, I.A.S.	Chairman, Tamilnadu Industrial Development Corporation Ltd., Madras-600 002
2 Thiru C Ramachandran, I.A.S.	Commissioner and Secretary to Government, Industries Department, Fort St. George Madras-600 009.
3 Thiru C Ramachandran, I.A.S.	Director of Industries & Commerce, Chepauk, Madras 600 005.
4 Thiru P. Muran, I.A.S.	Chairman, Tamilnadu Electricity Board, Anna Salai, Madras-600 002,
5 Thiru K J M Shetty I A S	Commissioner and Secretary to Government, Finance Department, Fort St George, Madras-600 009
6 Thiru C A Srinivasan, B E F I E	Chief Engineer (General) Public Works Department, Chepauk Madras-600 005
7 Thiru K Venkatesan, I A S	Managing Director, Tamilnadu Industrial Development Corporation Ltd, Madras-600 002

(F) & (G) Profits of the Company before and after making provision for tax and dividends declared by the company for the three preceding financial years :—

Year ended 31st March	Profits before tax (Rs in lakhs)	Profit after tax (Rs in lakhs)	Dividends Declared
1979	46 86 (loss)	46.86 (loss)	Nil
1980	53 36 ..	53,36 ..	Nil
1981	29.61 (Profit)	29 61 (Profit)	Nil

(G) Summarised financial position of the Company as appearing in the two latest audited balance sheet of the company (as at 31st March)

Liabilities	Figures for the year 1980 Rs.	Figures for the year 1981 Rs.	Assets	Figures for the year 1980 Rs.	Figures for the year 1981 Rs
Share capital	24,72,77,000	28,22,77,000	Fixed Assets	3,78,96,622	3,49,93,877
Reserves and Surplus	—	—	Works under construction	22,006	27,783
Secured loans	—	—	Investments (at cost)	22 82,09,935	28,06,71,145
Unsecured Loans	23,91,84,655	25,70,77,489	Current Assets	4,07,77,995	3,84,33,598
Current Liabilities and Provisions	4,19,38,829	5,44,86,302	Loans & Advance	15,57,81,190	17,55 19,888
			Misc expenditure	25,19 194	29,61 945
			Profit & Loss Account	6,31,93,542	6,02,32 555
	52,84,00,484	59,38,40,791		52 84 00 484	59,38,40,791

Note : Brief Particulars of contingent liabilities for the year ended 31.3 1981

- a) i) Claims against the Corporation not acknowledged as debt
  - ii) Estimated amount of contracts remaining to be executed on capital account and not provided for.
  - iii) Indemnity bond executed.
  - iv) Unclaimed liabilities in respect of partly paid shares.
  - v) Loan to Joint Stock Companies inclusive of interest due.
  - vi) Sundry debtors disputed by Tamilnadu Electricity Board being the excise duty on bars sold to them
  - vii) Balance of estimated liability for payment of Gratuity
  - viii) Cumulative sales tax liability for which exemption is applied for and pending with Government of Tamilnadu

Rs. 1,98,10,410

- b) Contingent liability on account of guarantees given by the Corporation either solely or jointly with other promoters in favour of various financial institutions banks in connection with the loans and interest due thereon as at 31 3 81 amounted to Rs 35 90 38 388 and foreign exchange of US $ 1003330, S F. 66457 DM 607204, £ 38024.

(I) a) The amount which the company can raise by way of deposits as on 31.3.81 as per rules — 25% of Rs 2190.82 lakhs = 547.74 lakhs

b) Deposits actually held as on 31 3 1981 Rs 332.60 lakhs.

(J) Overdue deposits on the date of advertisement - Nil

(K) It is hereby declared that

- i) The Company has complied with the provisions of the Companies (Acceptance of Deposits) Rules 1975 (as amended)
- ii) The said compliance does not imply that repayment of deposits is guaranteed by the Central Government and
- iii) The deposit accepted by the company are unsecured and shall rank paripasu with other unsecured liabilities.

NOTE THIS ADVERTISEMENT IS ISSUED ON THE AUTHORITY AND IN THE NAME OF THE BOARD OF DIRECTORS OF THE COMPANY AND THE TEXT OF THE ADVERTISEMENT HAS BEEN APPROVED BY THE BOARD OF DIRECTORS OF THE COMPANY AT ITS MEETING HELD ON 24th SEPTEMBER 1981

BY ORDER OF THE BOARD

Place : Madras 600 002
Date : 24th SEPTEMBER 1981

S. HARI
Secretary

Note: A copy of the advertisement duly signed by a majority of the Directors of the company has been registered with the Registrar of Companies Madras 6 pursuant to Rule 4 (4) of the Companies (Acceptance of Deposits) Rules 1975 (as amended)

TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDCO ■ TIDC

WHO's WHO AMONG BANKERS

This section gives brief biographical sketches of the leading personalities in banking world. Omissions, if any, are unintentional. They are due to the non-receipt of the necessary bio-data in spite of our best efforts to secure them. The biographical details about the persons who head the leading banking and financial institutions in the country will be read with interest.

I. G. Patel

Dr. I. G. Patel, Governor of Reserve Bank of India, was born in 1924. He took his B. A. (Hons) from Bombay University and a similar degree in economics from Cambridge in 1946. He took his Ph. D. also from the University of Cambridge in 1949. He studied at Harvard,University during 1947-48. Dr. Patel was Chief Economic Adviser, Government of India between 1961-63 and 1965-68 and was Economic Adviser, Planning Commission, Government of India, during 1961-63. He was Visiting Professor, Delhi University, in 1964. He was Special Secretary, and Secretary, Ministry of Finance, during 1968-72. He was also Government Director on the Reserve Bank of India and Industrial Development Bank of India. He was member, Atomic Energy and Space Commission, Monopolies Commission and Chairman, Committee on Managing Agency.

Dr. Patel served as Alternate Governor for India on the Board of Governors of the International Bank for Reconstruction and Development and Asian Development Bank and as member of Expert Groups appointed by the United Nations including the group on the Capital Development Fund, International Monetary Reform and preparatory work for UNCTAD I. Dr. Patel was Deputy Administrator, United Nations Development Programme between 1972-77. He was appointed, Governor, Reserve Bank of India, from December 1, 1977. He has written a number of articles on Inflation and Economic Development, Monetary and Credit Policy, External Aid, Strategy of Development, etc. in several distinguished journals in India and abroad.

C. Rangarajan

Dr. C. Rangarajan, Deputy Governor of RBI, was until recently Professor of Economics at the Indian Institute of Management, Ahmedabad. He held the Reserve Bank of India Chair in Economics at the Institute. After obtaining his Master's degree from Madras, he went to the University of Pennsylvania wherefrom he took his Ph.D. Degree in Economics. He has taught at Loyola College, Madras; the Wharton school of Finance & Commerce; University of Pennsylvania; the Indian Statistical Institute; and the New York University. He was, for a time, Fellow at the International Food Policy Research Institute, Washington.

His main areas of interst in Economics are: Monetary and Finance Institutions, Economic Planning and Industrial Economics. He has published extensively in these areas in professional journals at home and abroad. He is the author or co-author of the following books : 'Short-term Investment Forecasting' (1974); 'Principles of Macroeconomics' 1979); 'Strategy for Indurtrial Development in the 80s' (1981); and 'Innovations in Banking' (1982).

He has served on the Boards of several public sector financial institutions such as the Life Insuranace Corporation of India and the Export Credit and Guarantee Corporation. He has been a consultant to international organisations such as the U.N., FAO and the World Bank. He is currently Chairman of the Study Group appointed by the Planning Commission to examine the finances of the Corporate Sector during the Sixth Plan.

M V. Hate

Dr. M. V. Hate, Deputy Governor of the Reserve Bank of India, was born in 1922. After taking his M.A. degree in Economics, Dr. Hate took his Ph. D. in Economics from the University of Bombay in 1949. He started his career as Research Officer in the Indian Society of Agricultural Economics (1949-51) and was Professor of Economics at the Bhavan's College (1951). He joined the Reserve Bank as Rural Credit Officer in October 1952 and held in due course the post of Chief Officer in the Bank's Agricultural Credit Department in 1976. He was also the Managing Director of the Maharashtra State Land Development Bank(1961-63) and Secretary of the Agricultural Refinance and Development Corporation (1964-68).

He was appointed as Chief Accountant of the Reserve Bank (1978-79) and subsequently as Executive Director in charge of Agricultural Credit Department, Rural Planning and Credit Cell and Deposit Insurance and Credit Guarantee Corporation. Dr. Hate was a Fellow of the Economic Development Institute of the world Bank(1965). He represented the Reserve Bank at several world conferences on agricultural credit. He was Consultant to the World Bank on short-term assignment in Sri Lanka in 1977.

A. Ghosh

Mr. A. Ghosh, Deputy Governor, Reserve Bank of India, was born in 1930. After taking Degree in

Commerce from the Calcutta University and passing the Chartered Accountants Examination of the Institute of Chartered Accountants of India, Mr. Ghosh began his career in 1951 as an officer in the Allahabad Bank, then a subsidiary of the Chartered Bank. He was promoted as Chief Accountant in 1963 and General Manager in 1970 and was appointed as the Chairman of the Bank in May 1977 which post he held upto January 1982. He is also a Director of the Industrial Development Bank of India and a Member of the Governing Body of the National Institute of Bank Management-

P. C. D. Nambiar

Mr. P. C. D. Nambiar who took over the Chairmanship of the State Bank of India on May 23, 1977 is a banking veteran of more than three decades' standing. Born in 1922. Mr. Nambiar secured his M. A. in first class, passed CAIIB and took a diploma in "Industrial Finance" from London School of Economics. In 1944, he joined the Imperial Bank of India—which was later to be nationalised and re-named the State Bank of India — as probationary assistant in its London office. Later, he rose to the position of Manager in the same office. He also held the office of manager Foreign Department in Calcutta, Representative in the New York office, Secretary and Treasurer, Bengal Circle and also Deputy Managing Dirctor, before becoming Chairman.

Mr. Nambiar is the Chairman of the Indian Bankers' Association, Director of Industrial Finance Corporation of India and Industrial Reconstruction Corporation of India. He is a member of the Governing Board of the National Institute of Bank Management, Steering Committee on Regional Rural Banks and also the Agricultural Credit Board of the Reserve Bank of India. Mr. Nambiar is a keen player of Tennis and Golf. His hobbies include photography and music.

V. S. Natarajan

Mr. V. S. Natarajan, who has been reappointed as the Managing Director of the State Bank of India for a fresh term upto January 30, 1983, was born in January 1923. Mr. Natarajan joined the Imperial Bank of India in July 1943. Mr. Natarajan is also the Trustee, Unit Trust of India, Member, General Council, National Co-operative Development Corporation, Member, Council of the Indian Institute of Bankers, Member, Managing Committee, Indian Banks' Association, Director, Deposit Insurance and Credit Guarantee Corporation, Life Member, Indian Red Cross Society, Bombay Branch.

B. V. Sonalkar

Mr. Balkrishna Vasant Sonalkar, who has been appointed Chairman and Managing Director of Central Bank of India, was till recently holding charge as Chairman and Managing Director of Bank of India following the retirement of Mr. H. C. Sarkar. Born on August 30, 1928, Mr. Sonalkar has graduated in commerce from Bombay and London and has spent nearly 29 years in the banking profession. He joined the Bank of India as an officer in 1951 and was posted as assistant accountant in Madras and later as accountant in New Delhi till October 1953. From October 1953 to April 1961, Mr. Sonalkar was posted as accountant/manager at the bank's Mombasa, Nairobi and Kampala branches. Returning to India, he was subsequently posted in Ahmedabad as acting accountant till March 1962 when he went back to Mombasa and Dusseldrof to take charge as manager of those branches. Coming back to India, he was named sub-manager of Madras branch in June 1963 and since then worked his way up to finally become the executive director of Bank of India which post he held till January 1. 1981. At this bank, he was at the policy making level for over 10 years in areas like development, personnel, corporate lending and international operations.

R. C. Shah

Fifty Seven years old Mr. Ranchholdlal Chunilal Shah, Chairman and Managing Director of Exim Bank, is a B. A. (Hons) in Economics, Bombay University, from Baroda College. He joined Bank of Baroda in 1944 and was appointed as Chairman and Managing Director of the Bank in May, 1975. Before his appointment as Chairman and Managing Director, he served the Bank in various capacities in India, as well as overseas — in East Africa, Kampala, and U.K. During his stay in U. K., he was connected with various committees of the International Chamber of Commerce. At present, he is a Director on the Board of Agricultural Finance Corporation Limited. He is also a member on Governing Board of National Institute of Bank Management. He is a Member of the Managing Committee of Indian Banks' Association and a Trustee of the Indian Bank's Association Employees' Provident Fund. In India, he has been associated with several national committees in the area of business and banking. He was also a Trustee of Unit Trust of India. He is a Fellow of the Indian Institute of Bankers, and also Fellow of the Institute of Bankers, London.

R. Raghupathy

Mr. R. Raghupathy, Chairman & Managing Director of Syndicate Bank, was born in 1924. He graduated in Science from Loyala College, Madras. Mr. Raghupathy joined the Canara Bank in 1944 as Executive Trainee and was confirmed as officer in 1945. He acquired extensive operational experience as Branch Manager at important branches like Fort-Bombay, Madurai, Quilon, Calicut, Cochin, Bombay-Mandvi, Foreign Department, Bombay and Bombay-Kalbadevi. He was deputed to Trivandrum in 1960 with the objective of directing, supervising and controlling the take over of a number of smaller banks by Canara Bank. Thereafter, he was posted as Regional Manager of the Bank at Trivandrum. In 1965, he became Regional Manager with control over the branches of the Bank in Tamil Nadu. He was promoted to selection grade in 1963 and was promoted as Divisional Manager in 1967.

He was later transferred to Eastern Zone, Head Office, Bangalore with jurisdiction over branches in Tamil Nadu, Orissa, Bihar, West Bengal and Union Territory of Pondicherry. Mr. Raghupathy was promoted as Deputy General Manager of the Bank in 1972 and posted to Central zone with jurisdiction over the entire state of Karnataka having the largest number of ranches, numbering 307. In 1975, was promoted as one of the two eneral Managers of the Bank. Ir. Raghupathy attended seminars nd training courses, the most im- ortant of them being practical aining for six months in Deutsche ink, West Germany, and Bankers' raining College in Banking and ersonnel Management. He parti- pated in a number of seminars, orkshops and symposiums condu- ed by the National Institute of ink Management, Agricultural efinance Corporation, Institute of lanagement and others. He was Director of the Karnataka State nancial Corporation. He took er as Chairman & Managing irector of Syndicate Bank on pril 24, 1978.

. M. Yerkadithaya

Mr. K. Vishnu Murthy Yerkadi- aya, Chairman & Managing Di- ector, Indian Overseas Bank was orn in 1922 in Putur, South Kan- a. Mr. Murthy, as he is generally nown, joined the Indian Overseas ank in 1941. He served as Mana- er in the various branches in India nd abroad. In 1971, he was app- inted Assistant General Manager. e became Chief Executive Direc- or of United Asian Bank Berhad 1973. Mr. Murthy has had more an 35 years of banking experience his credit. He has travelled wid- y all over the world.

United Asian Bank, Berhad, for- ed out of the merger of the three dian banks, namely, Indian Over- as Bank, Indian Bank and Uni- d Commercial Bank, was led rough its infant stages under the pable leadeship of Mr. Murthy. ith Mr. Murthy at the helm as e Chief Executive Director, Uni- d Asian Bank, Berhad grew into e fourth largest local bank show- g a rapid growth of about 600 per nt in years. In addition to having en the Chief Executive Director United Asian Bank, Berhad, r. Murthy was also the director United Oriental Assurance Com- ny, Berhad, and MIC Unit Trust. is also a member of the Council Association of Banks in Malay- , ASEAN Banking Council and Certified Associate of Institute of nkers of India. He was also the st president of the rotary club of ala Lumpur and the president of arat Club (a club formed by dian expatriates in Malaysia). was also president of Sri Sarada Ramakrishna Sangha and a Trustee of the Mahatma Gandhi Memorial Trust.

M V Patwardhan

Dr. M. V. Patwardhan, Chairman and Managing Director of Bank of Maharashtra, was born in 1928. He took his B.A. (History, Economics) in Fergusson College, Poona, University of Bombay, in 1947 and his M.A. Economics, in the University of Poona. He took his Ph. D. in Economics in 1966 from Gokhale Institute of Economics and Politics, Poona. He qualified for CAIIB in 1952 and F. I. B. (London) in 1976.

Dr. Patwardhan joined the Bank of Maharashtra Ltd., in 1947 after graduation (when the bank's deposits were less than Rs. 2 crores). In 1949-50, he was Officer-in-charge of Securities, Advances and Investment Portfolios. In 1960-62 he was Executive, Foreign Exchange. In 1962-64, he was Personal Secretary to General Manager and in 1966-69, became Assistant General Manager. He was promoted as Joint General Manager in 1969 and held that position till 1975. He became General Manager (Operations) in 1976. He has been appointed as Chairman and Managing Director, Bank of Maharashtra in January 1977.

Dr. Patwardhan was a participant trainee in the first batch of Bankers' Training College, Bombay, Reserve Bank of India, in 1954. He started the training programmes for the Bank in the year 1957 when many other banks were not having it and conducted them upto 1964. He started the house magazine for the Bank in 1957 and was its Edittor upto 1966. Dr. Patwardhan founded the Foreign Exchange Division in the year 1960, when the Bank of Maharashtra Ltd., obtained the licence to deal in Foreign Exchange. In the year 1961, he was selected by the Indian bankers' Association as a participant for the International Banking Summer School Christchurch, Oxford, U.K., held in July 1961. He was deputed by the Bank of Maharashtra for three month course with the Midland Bank Ltd., on the Banking Operations and Exchange in 1961 and for visiting Foreign correspondents of the Bank. In the year 1963, he was deputed by the Bank for a study tour of United States of America and Canada and attended the Guest Observers Programme of Chase Manhattan Bank for three months from September 1963. In the year 1968, he was deputed by the bank of Maharashtra to visit foreign correspondents in Eastern and Western European Cauntries, U. K., Japan, Thailand and Hong Kong.

M. V. Subba Rao

Mr. M. V. Subba Rao, Chairman and Managing Director of Indian Bank, took his M, A. (History and Economics) in first class from the Madras University in 1944 and joined the former Hyderabad State Bank as an officer for two years. In 1957, he was deputed to the State Trading Corporation of India to serve as the Deputy Chief Accounts Officer at its Head Office. Mr. Rao joined the Bank of India Ltd., in July 1962. Before joining the Andhra Bank in April 1969, as General Manager, he held senior positions like Regional Manager, Northern India branches and Regional Manager, Southern India branches in Bank of India. Mr. Rao, a member of various professional and non-professional organisations and institutions, was President of the Rotary Club of Hyderabad in 1973-74 and the Director on the board of the club for five years. He has attended various courses and seminars conducted by the Administrative staff College of India, National Institute of Bank Management and Shri Ram Centre for Industrial Relations on various subjects like General Management, Industrial Relations and Corporate Planning etc. Mr. Subba Rao was the Chairman and Managing Director of Export Credit and Guarantee Corporation Ltd. (ECGC) from January 1975 upto October 1977.

B. K Chatterji

Mr. B. K. Chatterji, Chairman and Managing Director of United Commercial Bank, was born in 1923. He obtained his B.A. Degree in Economics and Political Science from Allahabad University securing a Gold Medal for standing First Class First. He joined the Imperial Bank of India on July 1, 1944 as Probationary Assistant. During his long career of 33 years in the State Bank, he has held important assignments like Manager, Allahabad and N. S. Road, Calcutta branches, Chief Accountant, State Bank of Saurashtra, Deputy Secretary and Treasurer, State

Bank of India, Calcutta Circle and Chief General Manager. Bhopal Circle. Mr. Chatterji was the Chief General Manager, State Bank of India, and Managing Director of State Bank of Bikaner and Jaipur.

Mr. Chatterji has been intimately connected with the financing of Small Scale Industries in so far as the Banking System is concerned in the country. While at Bhopal, he took keen interest in financing ex-prisoners, prisoners and the surrendered dacoits of the Chambal Valley in order to make them useful members of the society. Besides, Mr. Chatterji has been associated with many banking innovations like introducing a system of imprest Account Fund to enable the Branch Managers to grant petty loans after office hours and even late at night in case of an emergency, financing against the security of brass and copper utensils for the first time in India by any Bank. His special interest lies in the field of International Finance.

G. K. Ahluwalia

Mr. G. K. Ahluwalia, Managing Director, State Bank of Patiala, was born on November 30, 1925 in Mathura, U. P. He passed his M. A. in (English) from Punjab University, Lahore. He joined the Imperial Bank of India on November 5, 1947 as Probationary Assistant. He held the position as First Instructor, Staff Training Centre, Kanpur, Branch Manager at Rohtak, Agra, Moradabad and Meerut; Staff Superintendent and Superintendent Branch Department at Local Head Office, New Delhi; Chief Officer Personnel and Administration at Central Office of the Bank. Chief Manager, State Bank of India, New Delhi Main Branch. He was transferred to State Bank of India Hyderabad as Chief Manager. Later he moved to Bhopal Local Head Office of SBI as General Manager (Operations). He is now M. D. State Bank of Patiala. In 1964, he went to Germany and England for overseas training.

R. Srinivasan

Mr. R. Srinivasan, Chairman and Managing Director of New Bank of India, Delhi, is a graduate in arts and also holds the qualification of CAIIB. Born on May 30, 1931, Mr. Srinivasan started his career with Grindlays Bank in 1949, but moved to Andhra Bank Ltd.,(now nationalised) as sub-agent in 1960. In this bank, he rose to become the head of the foreign exchange department in 1969 and continued so till 1971 when he joined the New Bank of India as controller of foreign exchange. Within eight years, he became the general manager of the bank and was subsequently appointed Chairman and Managing Director on January 2, 1981. Mr. Srinivasan, whose first love happens to be international banking, has contributed significantly to senior level policy making national forums and seminars under the auspices of various banking institutions. He is a member of the guest faculty of the Northern India Banks' Staff Training College, New Delhi, and Bankers' Training College of Reserve Bank of India.

J. B. Kamath

Mr. J. B. Kamath took over as Chairman and Managing Director of Corporation Bank on March 18, 1981. He joined the Central Bank of India on July 1, 1946 as a Probationary Officer and worked in all major departments at its Bombay Main Office. After the training period, he was posted in December 1948 to the than Branches Inspection Department. In July 1962, he was put in charge of the work of preparing a Manual of Instructions for the Bank. He completed the job by August 1964. He organised the Organisation & Inspection Department of the Bank in the same year. In March 1968, he was put in charge of the Branches Inspection Department as Superintendend. In January 1969, he was transferred as Chief Officer in the Organisation and Inspection Department.

In March 1971, he took over as Manager the Bank's London Office. For personal reasons, he had to return to Bombay in January 1972 and was placed in charge of the Vigilance Department. In October 1972, he was promoted to the rank of Manager. He worked as Zonal Manager, Delhi Zone, in the absence of the regular incumbent, from September 1974 to Nevember 1974. He went to Calcutta in November 1974 as Assistant General Manager. He came back to Head Office in January 1975 and worked as Assistant General Manager, Planning and Development Department upto March 1975. He was posted as Zonal Manager, Patna in March 1976, He resigned in November 1976 to join Corporation Bank Limited. He joined the bank as Additional General Manager in December 1976. He was re-designated as General Manager in January 1978 and was elevated to the position of Executive Director with effect from July 29, 1979. He was appointed as Chairman and Managing Director in March 1981. Mr. Kamath is 60.

M. R. Ranadive

Mr. Madhukar Ramachandra Ranadive has been Chairman and Chief executive, Sangli Bank, since June 1975. He was born on June 5, 1916 at Baroda (Gujarat). He took his M. A. (Economics) in 1939. He joined the bank of Baroda in 1940 and was with Barclays Banks London and Chase Bank, London between 1948 and 1950. Later, he served as Senior Officer at Head Office, as Agent at Ahmedabad, Regional Manager in-charge of group of branches in West India, between 1962 and 1970. He was Assistant General Manager during 1970-71. Deputy General Manager (General), during 1971-74 and Joint General Manager (Domestic operations) during 1974-75. He is a member of Institute of Bankers, Bombay and London, and Bombay Management Association.

RM. Muthiah

Mr. RM. Muthiah, Chairman, Bank of Madura Limited, was born in 1919. He served in Indian Bank from 1944 to 1975 in various capacities. He also worked abroad during 1963 to 1974. In 1974, he was promoted as Assistant General Manager of Indian Bank. He joined the Bank of Madura Limited in 1976 as General Manager and was elevated to the post of Chairman of Bank on September 15, 1976.